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1991

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MPRA Paper No. 10802, posted 28. September 2008 00:21 UTC

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1. Introduction¹

Foreign trade has two main effects upon a country's power position. A *supply* effect, i.e. trade provides a more plentiful supply of wanted goods and this enhances the force of a country and an *influence* effect, i.e. trade provides a method of coercion in the relations between sovereign nations. Every sovereign country exerts some influence upon its trade: at any time it can interrupt its export and import trade and force adjustments upon other countries, and it can try to create the conditions that make the interruption of trade of far greater concern to its partners than to itself. In other words, it can pursue

¹ A very preliminary version of this paper was discussed at Marburg University, Institut für Wirtschafts- und Sozialgeschichte. I would like to thank M. de Paiva Abreu, K. Borchardt, G. Fodor, A. Ginzburg, P. Hertner, B. Mantelli, R. Petri, D. Rizzi and M. Storaci for a number of very useful criticisms of an earlier draft.

Lorenzo Smaniotto has provided skilful computer assistance and I owe to him all the computations of Chapter 6. The visit to the various archives was made possible through financing from the Ministero della Pubblica Istruzione and from Deutscher Akademischer Austauschdienst.

The following abbreviations are used:

AA.= Auswärtiges Amt Politisches Archiv, Bonn.

BAK.= Bundesarchiv, Koblenz.

BdI.= Archivio storico della Banca d'Italia, Roma.

FO.= Foreign Office, German Library, Enemy Documents Section, German file, London.

NARA.= National Archives and Records Administration, Washington.

PRO.= Public Record Office, London.

TdR.= Fondazione L.Einaudi, Archivio Tahon de Revel, Torino.

f. = frame, r. = roll.

Among printed materials:

DGFP.= Documents on German Foreign Policy, 1918-1945. From the Archives of the German Foreign Ministry, Washington, 1957 ff.

DDI.= Documenti diplomatici italiani, Ministero degli Affari Esteri, Commissione per la pubblicazione dei documenti diplomatici, series 8 and 9, Roma.

No archival collection exists in Italy for the Ministry of Trade and Foreign Exchange; some information is provided by the memoirs of Minister Felice Guarneri, published under the title *Battaglie economiche tra le due guerre*, 2 vol., Milano 1953.

a "power policy"² Dependence, on the other hand, may appear as an indirect consequence of the neglect of trade and the pursuit of economic options aimed at different objectives; domestic targets or re-armament for example.

The influence a country can exert upon another country by foreign trade depends on the gains from trade and their distribution. It requires a rather broad evaluation, in a dynamic setting, of the entire set of policies of trade diversion and specialization among the partner countries. Specifically, terms of trade are rather an ambiguous indicator of the gains from trade. A policy using foreign trade as an instrument may sometimes have to choose between better terms of trade on the one hand and more influence on the trading partner on the other³.

In his book on the relations between Germany and the South-Eastern countries, Frederic Benham showed a clear decline of the German terms of trade with them⁴. He arrived at the conclusion that in the thirties Germany had exploited its monopoly power neither as a purchaser, imposing low prices, nor as a seller, requiring high prices. This opinion was shared by Hirschman⁵ and has recently been taken up by Alan Milward and Larry Neal⁶.

Paul Einzig and Frank Child⁷ supported the exploitation issue instead; they assumed that by dealing with the trade partners of South-Eastern Europe, Germany was able to secure itself favourable terms of trade and studied the functioning of the bilateral clearings in terms of monopoly theory, based on the larger relative importance of the German market. Following economic theory, they claimed that monopoly can be used to increase its advantage by reducing the quantities brought to the market in order to sell at higher prices⁸.

2 A. H. Hirschman, *National Power and the Structure of Foreign Trade*, Los Angeles 1945, 2nd expanded ed., pp. 14-17.

3 Hirschman, *National Power*, pp. 20-23.

4 Royal Institute of International Affairs, *South-East Europe. A Political and Economic Survey*, London 1939, pp. 197 ff.

5 Hirschman, *National Power*, p. 38.

6 A. Milward, *The Reichsmark Bloc and the International Economy*, pp. 377-428, in: Hirschfeld, G. / Kettenacker, L. (eds.), *Der "Führerstaat": Mythos und Realität*, Stuttgart 1981, p. 381 ff. and L. Neal, *The Economics and Finance of Bilateral Clearing Agreements: Germany, 1934-38*, *Economic History Review*, 2nd. s. 1979, 32(3), p. 396. Of course prices convey only very partial information in the case of multiple exchanges, subsidies, blocked marks and so on; see K. Borchardt, *Ein neues Urteil über die deutsche Währungs- und Handelspolitik von 1931 bis 1938*, *Vierteiljahrsschrift für Sozial- und Wirtschaftsgeschichte* 46, 1959, p. 533.

7 The general idea is in P. Einzig, *Bloodless Invasion. The Economic Penetration into the Danubian States and the Balkans*, London 1938, part 1; the argument is theoretically more developed in F. C. Child, *The Theory and Practice of Exchange Control in Germany*, The Hague 1958, p. 2. Another work based on import-export price differences to evaluate the exploitation issue is that by P. Friedman, *The Welfare Cost of Bilateralism: German-Hungarian Trade*, *Explorations in Economic History*, 13, 1976, pp. 113-125.

8 Child (*The Theory and Practice*) is, in some ways, more cautious in his conclusions. In the opening sentences he claims that "The German monetary authorities successfully manipulated the foreign exchange market to alter the composition, direction, and terms of international trade, thus exploiting the international market as a discriminating monopolist" (p. 3) but admits that,

Unlike Albert Hirschman, Paul Einzig, Frank Child and many others, Alan Milward has recently expressed the opinion that, before 1939, the Nazi government considered the pursuit of an expansive domestic policy as its most important priority⁹. There was nothing like a deliberate policy of exploitation of the countries of the Reichsmark bloc. German trade policy was primarily concerned with husbanding gold and reserves without long-run prospects and not with a political and economic struggle for power.

The study of German-Italian trade may help to assess the exploitation issue¹⁰. To discuss it in terms of relative prices is, in fact, only a small part of the story, and not by any means the most important one. Albert Hirschman and Howard Ellis pointed out that the exploitative issue which may arise from bilateral clearings might have taken different directions from that of prices¹¹. As a matter of fact, we aim to show that German policy towards Italy allowed a permanent surplus on the merchandise account and made it balance by permitting a generous flow of invisible income to Italy, pursuing a policy of control of Italian trade not through prices but through quantities. Of course such a policy made the supply effect of trade favourable to Italy but strengthened Germany's influence on the Italian economy, which was to be the root of Italy's dependence on Germany during the war.

We begin this study looking at the balance of payments of Italy and Germany, which is reconstructed in Chapter 2. Chapter 3 attempts a historical account of trade development and negotiations from 1931 to the first clearing agreement and highlights the reasons that led to the increment of the German commercial debt with Italy, despite an active merchandise account. The historical analysis of the early years of the clearing is dealt with in Chapter 4; it shows the importance of the German market during the sanctions against Italy and the relevance of the invisible items in balancing the clearing account. The governments of both countries were convinced that trade between them could develop only by means of a clever administration of the balance of the invisible items; first through the expenditures by tourists and the repurchasing

contrary to the opinion of the time. "German trade rebounded with some net benefits to the exploited nations" (p. 3). Knut Borchardt criticizes this last point (p. 531) in a long and complete review of Child's book (Borchardt, *Ein neues Urteil*).

9 Milward, *The Reichsmark Bloc*, p. 401.

10 Following a suggestion by Hirschman, *National Power*, p. 38.

11 According to Ellis, Germany had made a considerable investment for a period of at least five years, from 1934 to 1939, in not exploiting her monopoly power in terms of prices in order to consolidate its position within the organization of her "Großraumwirtschaft". It was, however, to exploit it later on. Although Ellis goes on to say that "even more important was the growth of the political power of Germany, which would scarcely fail to menace the economic status of South-eastern Europe generally" (H. S. Ellis, *Exchange Control in Central Europe*, Cambridge 1941, p. 265), Larry Neal interprets this sentence saying that the Germans had made a large investment to acquire a monopoly position they never exploited; the subsequent policy of exploitation during the war would have come in any case, independently of the economic penetration arranged previously. See Neal, *The Economics and Finance*, p. 396.

of German properties, then by means of Italian workers' remittances¹². The problems posed by the Axis are dealt with briefly in Chapter 5.

The war raised new problems; trade policies were mixed with problems of financing the Army and it may thus be advisable to conclude this study at the eve of World War II.

The question of the ambiguity and unimportance of the terms of trade debate is answered in quantitative terms in Chapter 6. Its conclusions reinforce our conviction about the irrelevance of prices and the importance of structural movements in assessing the problem of dependence of the economies. Chapter 7 stresses the dependence of the two countries but underlines Italy's ability - at least till 1939 - to play a relatively independent role.

Both countries enjoyed a supply effect as their trade rapidly progressed. The influence effect of foreign trade was rather strongly against Italy which, by the end of the thirties could not easily turn to other markets. This was not without a cost for Germany as its purchase market had to be "adapted" to absorb Italian goods and workers and German tourists were allowed into Italy in large numbers. To shift trade to third countries became more difficult for Italy and probably for Germany, where vested interests would have been sacrificed.

2. The Bilateral Balance of Payments

Since the 19th century, Italy and Germany had large mutual trade flows; their amount is reported in Table 2.1. The basic trade data are published by the two countries in a rather detailed form and seem to be accurate. The bilateral imports and exports values presented by the two statistical offices match rather well, particularly after 1926 when important changes were introduced by the Italian side, which provides a rather reassuring test of the absence of major statistical problems¹³.

12 Italy is a case in point, see A. Hirschman, *Memoria sul controllo dei cambi in Italia* in his *Potenza nazionale e commercio estero*, Bologna 1987, p. 229. According to Hirschman this situation is typical of trade between countries which can control individual choices and so can decide the magnitude of the flow of tourists and of agricultural workers, in the absence of capital movements.

13 The merchandise balance registered in the Italian statistics is the algebraic sum of imports cif. and exports fob., which takes account of the passive items due to freights and insurance costs on imports. As coal was an important item, the amount of freights was rather large. In German statistics the opposite happens so that the ratio between Italian imports/Italian exports and German exports/German imports is expected to be systematically larger than 1. The divergence between the two statistics seems to be less marked in the twenties, when the values registered in Italian statistics were based on the exporter's and importer's declarations and not on estimates by the Italian Customs Commission.

We have performed a test on the equality on the yearly variations in Imports/Exports ratios on the statistics of the two countries regressing the first difference of the ratio Imports/Exports for one country on the first difference of the reverse ratio for the other for two time periods, 1901-1913/1924-1925 and 1926-1939. The hypothesis that differences in ratios are equal requires a

In the last decades of the nineteenth century Italy imported from Germany 10-12% of her total imports and exported to Germany 10 to 16% of her exports. Germany was the most important export market for Italy, where mainly agricultural products and textiles were sold. It became the single most important import market before the First World War, when Italy's rapid industrialization led to an increase in mechanical and chemical imports from Germany. In the twenties the disruption of the German economy and the increasing importance of the United States reduced Germany's importance as a supplier, however it remained the most important export market for Italy. The importance of Germany increased in the thirties, particularly in the second half of the decade, when it supplied 24% of the total Italian imports and bought 18% of the total Italian exports.

Table 2.1. Italian - German Reciprocal Trade. Percentage Quotas on Total Trade.

	Italy		Germany	
	Imports	Exports	Imports	Exports
1880-1884	7.3	7.3	2.1	2.3
1885-1889	10.1	10.3	3.2	2.9
1890-1894	12.0	14.5	3.4	2.8
1895-1899	12.2	16.1	3.2	2.5
1900-1904	12.7	15.7	3.2	2.7
1905-1909	16.6	14.6	2.2	4.1
1920-1924	6.7	8.5	-	-
1925-1929	10.7	12.4	2.9	4.5
1930-1934	7.1	12.3	2.3	4.2
1935-1939	23.7	17.7	2.5	4.9

Source: B. Mitchell, *European Historical Statistics, 1750-1970*, 2nd ed., London 1980, Tables F1 and F2.

null constant term α and a unit slope.

Italian German Trade Statistics. Dependent Variable Germany (Imports/Exports)

	1901-13, 1924-25	1926-1939
Constant	0.06638 (0.023)	-0.39882 (-0.186)
Italy (Exports/Imports)	1.73384 (9.322)	1.17032 (7.509)
R ²	0.86	0.82
DW	1.64	1.28
F	86.89	56.38
Number observations	15	14

t-statistics in parentheses. Source: Table 2.1.

The constant term is not significantly different from zero. The hypothesis that the coefficient of the independent variable = 1 is accepted at the 5% significance level for the second period ($t = 1.093$) but is rejected for the first ($t = 3.94$).

Italy was much less important to Germany both as an export and as an import market. German exports to Italy reached the largest quota in the late thirties but remained below 5%; German imports from Italy fluctuated around 2-3.5% of the total import value (Table 2.1).

The change in importance of the German market to the Italian economy was accompanied by a significant alteration in the composition of the classes of goods exported and imported.

In 1913 and in 1925, 75-80% of German exports to Italy were finished manufactures, while this percentage declined steeply to 66% in 1934 and reached its lowest value of 57% in 1938. This decline was balanced by an increase in the quota of the raw materials exported from Germany, mainly coal, which amounted to more than 30% of the total German exports by the end of the thirties. German imports from Italy were mainly agricultural products; animals, food, beverages went up from 24% of the total in 1912 to around 50% in 1925 and stayed at the same level till 1938, with a rather stable quota. As time went by, the reciprocal exchange did not progress towards a larger quota of manufactures as one would expect with the development of the process of industrialization in both countries, but the external trade specialized towards less transformed goods from both sides; partly this was the result of the "autarchia nazionale".

Table 2.2. German Current Balance with Italy, 1928-1939. (Million RM).

	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
Merch.	+79,9	+159,2	+118,9	+72,3	+41,9	+60,8	+61,2	+92,0	+78,0	+87,0	+102,0	+106,0
Freight	-12,0	-13,0	-12,0	-9,0	-7,0	-7,0	-6,0	-21,0	-21,0	-26,0	-55,0	-106,0
Tourism	-28,0	-35,0	-32,0	-17,0	-19,0	-18,0	-15,0	-15,0	-40,0	-41,0	-58,0	-47,0
Interest	0,0	0,0	-0,5	-1,0	-5,0	-5,0	-4,0	-4,0	-3,7	-3,7	-3,7	-3,5
Curr. bal	+39,9	+111,2	+24,6	+45,3	+10,9	+30,8	+36,2	+52,0	+13,3	+16,3	+14,7	-48,5
Repar.	-144,0	-177,0	-140,0	-89,0	-3,0	-3,0	—	—	—	—	—	—
Gold	+4,5	+5,3	+5,2	+3,9	+3,9	+3,6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

From 1929 to 1934 data refer to the current balance of payments; from 1935 to 1939 data are taken from "payments in" and "out" in the Verrechnungskasse (Table 4.2) so the result is more similar to a currency balance than to a balance of payments. Freights include other services (i.e. workers' remittances).

Sources: BAK. R7/3692, Die Deutsche Zahlungs- und Devisenbilanz im Jahre 1938; *ibid.* R2/324, Die Deutsch-Italienische Austauschbilanz; *ibid.* R2/13691a, 13692, 13693, 13694, R7/3532, 3637, 3638.

The merchandise balance had been in favour of Italy almost uninterruptedly from 1880 to 1906; afterwards it turned decisively in Germany's favour till the Second World War¹⁴. Before a long-run trade deficit, the invisibles

always played a crucial part in determining the current balance between the two countries¹⁵.

This move appears very clearly in the twenties and in the thirties when we can rely on additional information to allow us to reconstruct a proxy for the yearly current balance (Table 2.2). Some items are naturally non-specified, but a very important and increasing flow of payments out of Germany due to invisibles stands out rather clearly; it is due to freights, tourists' expenditures and, by the end of the period, to Italian workers' remittances. The flow from services almost parallels the merchandise passive balance for Germany (from 1936) and roughly brings the current items to balance. Reparations were a sizeable proportion of the commodity balance till their disappearance in 1933, when they were stopped.

On the whole the surplus to Germany in the merchandise account appears rather stable during the whole period from the twenties to the thirties. During the first seven years of the decade, the period of less controlled trade, it was only partially covered by the negative flow of invisibles going from Germany to Italy; the resulting balance in Germany's favour was compensated multilaterally and/or contributed to the formation of the overall balance.

During the five years of more strictly controlled trade from 1935 to 1939, trade was strictly administered through a quota system and payments between Italy and Germany were channelled through the clearing.

From 1932 clearing agreements spread rapidly through continental Europe; their development can largely be attributed to Germany and Italy, two countries that also maintained import controls. The quota of trade conducted within the clearing for these two countries increased rather rapidly after 1934 and rose to over 50% of total trade by 1939. As early as 1935, Italian trade with Germany was more than 50% of the total Italian clearing trade while Italy represented, on average, 10% of the total German clearing trade.

At the end of the thirties Germany's management of international exchanges may be summarised in a few items that clarify the viewpoint with which Germany and the Reichsbank dealt with the control of the reserves.

- 1) Germany attempted to maintain a surplus in the merchandise balance (not the global balance) concerning the European countries, which were largely linked to it by clearing relations, whilst it had to continue buying raw material from Overseas. From the surplus of the merchandise balance of the clearing, Germany gained a limited amount of free exchange thanks to negotiation in many agreements of a "peak" that allowed it to collect about 7% of the value of the commodity imports in clearing in free exchange, roughly 140 million RM a year (134 in 1938, 131 in 1939 and 152 in 1940), half the total of the passive balance of 1938.

15 See R. Schneiders, *Deutsch-Italienische Handelsbeziehungen*, Bonn 1929; A. Nicolai, *Les remises des émigrés italiens*, Nice 1925, cap.V; P. Hertner, *Il capitale tedesco in Italia dall'Unità alla prima guerra mondiale*, Bologna 1984; G. Luzzatto, *L'economia italiana dal 1861 al 1894*, Torino 1968.

14 Mitchell, *European Historical*, Table F1.

- 2) Germany attempted to make the general balance of the clearing passive by buying services, sending tourists abroad and paying foreign labour (Table 2.3). Each deficit in clearing was in fact relatively economic as it did not give rise to outgoings of currency and allowed improvement of the production situation and to increased internal consumption. Despite the fact that the clearing was in overall deficit (Table 2.3), the "peak" clause in exchange equally allowed some collection "in free currency".

Table 2.3. Germany's Currency Balance of Payments in 1938. (Million RM).

	Merchan- dises	Ser- vices	Capi- tals	Others	Balance	Free ex. balance
RM-Sonderk. & Clearing acc.	+164	-175	-55	-37	-103	+134
Free currency countr.	-235	-84	+879	-188	+372	+372
Total	-71	-259	+824	-225	+269	+506

Source: BAK, R7/3629, Die Deutsche Zahlung. BAK, R7/3068, Statistisches Reichsamt, Die Deutsche Zahlungs- und Devisenbilanz

F. Huhle, Die deutsche Außenhandelslage bei Kriegsbeginn, Zeitschrift für die gesamte Staatswissenschaft, 118, 1962, p. 579 ff., compares Germany's commodity balances with various countries according to the means of payment; the result is not so clear - cut because of the importance of payments for invisibles, which are not considered.

- 3) Germany attempted to maintain a surplus in free exchange both by the clearing and by relations with certain countries, the main ones being the United Kingdom, Belgium and France, with whom it drew up "payment agreements" (Table 2.3). With this exchange it paid the other part of the deficit of the raw materials imported¹⁶.

3. Italian-German Attempts to Restore Trade after the Depression: *Germany from Creditor to Debtor*

During the thirties, the development of trade relations between Italy and Germany was mainly influenced by tariffs and exchange control measures¹⁷.

¹⁶ In 1938, however, the surplus in free currency recorded in the German balance of payments under the heading of capital movements was mostly made up of currency remittances from the occupied countries and could be attributed to the takeover of Austria and was thus determined by non-trade movements. The reductions of Austrian effects and patrimonies are registered in the surplus in 1938 which were recorded in the currency balance as 1 billion RM. Without this the free currency countries would have had a balance of -628 (Total bal. = -831) and a free exchange balance of -628 (Total bal. = -494).

¹⁷ Supplementary trade agreements between Germany and Italy were anticipated in the 1925 general agreement; they began again in April 1930 with the object of making German industrial

These policies were set up in both countries as part of a more general attempt to isolate the national economies from foreign markets and retaliate against the "unfair" British competition that followed the devaluation of the pound¹⁸.

From the outbreak of the world economic crisis, in the Winter of 1929, the German parliament adopted legislative measures to exclude foreign corn supplies, livestock and meat and, in the following spring, duties on potatoes, sugar and cereals were increased. On 15th April 1930, a law was passed that gave power to the Ministry of Finance to change tariffs by decree, similar to what had happened in Italy in 1927¹⁹.

Up until 1931, German tariffs were moderate in their dealing with vegetable and fruit imports and with the whole set of Italian exports in general²⁰. About a hundred out of a total of four hundred important categories of German imports were hit and around 50% of total German exports to Italy was affected²¹.

Exchange control was much more important for the purpose of controlling German foreign trade. In early summer 1931 various decrees produced the legal structure which was to control the exchanges. These gave the Reichsbank a monopoly in dealing with the foreign currencies, all deviations from the official rate of exchange were prohibited and forward transactions in "Devisen" were abolished²².

exports in exchange for Italian agricultural exports easier, see DGFP. B.XIV, n.227, Aufzeichnung des Vortragenden Legationsrats von Bülow, 30.4.1930.

¹⁸ Needless to say, the course of these general policies is of interest to us only in so far as they determine the course of the payments and trade relations between the two countries. Tariff is a problem that occupies a pre-eminent place in the European post-war economy. Germany and Italy share much of the same history: the war left the two countries dependent on foreign supplies, particularly in cereals, to an unprecedented extent. Both decided to revert to a high protectionistic policy in cereals, sugar, agricultural goods that could be and were produced domestically by large landowners. A detailed account for individual countries is in H. Liepmann, Tariff Levels and the Economic Unity of Europe, London 1938, pp. 56 ff. The main difference between Italy and Germany concerns livestock and meat, which were protected in Germany but not in Italy.

¹⁹ Banca d'Italia, L'economia italiana nel sessennio 1931-1936, part I, Roma 1938, pp. 240 ff. In Germany this possibility was in force until 31.3.1932.

²⁰ Tariffs were stated in bilateral trade treaties negotiated mainly with Holland, Italy and France, see L. Groja, Il protezionismo ortofrutticolo tedesco e le esportazioni italiane, Commercio, n.11, nov. 1932, pp. 558-562 and Guarneri, Battaglie economiche, v.1, p.133. More generally Liepmann, Tariff Levels, p. 63.

Of course German agricultural policy later became very protectionistic, as Minister Bottai noticed at the Tariff Truce Conference (The Economist, 22. 2. 1930; in the same period Germany was generally considered a low tariff country) and as Bottai remarked at the Senate (Il Messaggero, 22.5.1931, reported in J. M. Jones, Tariff Retaliation. Repercussions of the Hawely-Smooth Bill, Philadelphia 1934, pp. 100-103).

²¹ DGFP. B.XVIII, n.241, Das AA an die Botschaft, Rom 15.10.1931; BAK, R 43/1/1097, AA an den Herren Staatssekretär, 10.11.1931; AA.Ha-Pol.Ritter, b.6.s.b.7, Rom 13.12.1931, k169852-57 and BXIX, n.140, Das Reichsministerium an das AA, Berlin 23.12.1931. German claims are reported in the same DGFP. B.XVIII, n.241.

²² The basis was the decree 15.7.1931; for an account: G. Radio von Radiis, Die deutsche

Initially, the control was not very efficient²³ and it isolated Germany politically²⁴. In November 1931, a system of rationing was introduced in order to strengthen control; "Devisen" had to be allotted to a maximum per month and per importer, with no limit for only a few goods considered to be necessary²⁵. Seventy-five percent of the "Devisen" used by each firm was despatched to the importers during December 1931²⁶. The quota was restricted to 65% in March, to 55% in April 1932 and to 50% in May of the same year; December 1931 was already 50% of December 1930, so that the final quotas were in fact halved and reached even lower levels later on.

The system was non-discriminatory²⁷ in the sense that it hit all countries but it specifically affected agricultural products, finished goods and coal exporters at a time when European agriculture (Italy, but to a larger degree Denmark and Holland) was hit by the French import control²⁸ and by the English protectionistic policy of Ottawa. The threat of new tariffs and the restriction in the allotments was followed in November 1931 by a project for a specific policy of very restrictive quota imports on some less important products (vegetables and some fruits)²⁹. The German manoeuvres raised Italian fears to the highest point in the Spring of 1932³⁰, just before the harvesting of

Italian fruit and vegetable crops, for these goods were perishable and could not be easily directed towards other countries³¹.

A sort of clearing agreement was reached by mid-June 1932 and came into force from 1st July. German importers were to pay cash to the extent to which they were allotted lire by their central banks within the framework of the exchange rationing system. Beyond that, German imports from Italy would be covered by the payment of Reichsmarks to the Reichsbank's Istcambi RM account, and Italian imports from Germany by the payment of lire to the Banca d'Italia's Reichsbank Lire account³². These accounts, called "Sperrkonten", were then set off against each other. The movement of goods beyond the allotment was called "additional". If there was lack of "blocked marks", due to the German surplus, the Italian importers paid 25% cash, i.e. RM, and deposited 75% in lire with the Istcambi³³.

The agreement was dissolved at maturity after three months³⁴. In November the two countries negotiated a reciprocal procedure, with very similar

Außenhandelspolitik unter dem Einfluß der Devisenbewirtschaftung von 1931 bis 1938, Dissertation, Univ. Zürich, Wien 1939.

23 Ellis, Exchange Control, p. 183.

24 DGFP. B.XXI,n.100, Sitzung des Handelspolitischen Ausschusses vom 10.10.1932.

25 Groja, La politica doganale, p.186.

26 FO.L812., Ministero degli affari esteri, Memorandum, Roma 16.5.1932, L236375-77 (the base year was July 1, 1930 to June 1, 1931).

27 As was often claimed, but it was nonetheless detrimental to the interests of foreign agricultural exports as these were seasonal perishable commodities and required large availability of foreign currency during the Summer months; AA. W. Finanzwesen 16-Italien, b.1, letter from Berlin to Rome (Ritter), 26.5.1932.

28 This affected mainly Italy, as France limited its imports of fresh fruit from Italy to 40% of the 1931 value and of vegetables to 61%. Italian Trade Policy, The Economist, 23.7.1932, p.169.

29 From less than 65% to less than 30% of the base year. The aim of this move was to open negotiations. Immediately afterwards a Commission was set up by the Germans and sent to speak to the various governments in order to start talks. See Groja, La politica doganale, p.558. This system was part of the "Program of agricultural relief" that developed a quota system for each relevant product, and let the definite result be determined in negotiation with the exporting countries, H.A. Wadsack, Import Quota System in Germany, Journal of Farm Economics, 1.1933, v.XV, pp.177-179.

In March 1932, butter was rationed. Holland was the only country that replied to German measures by applying a quota on German exports; all others negotiated.

30 Before Italian interests were hit by controls on imports of eggs and by exchange allotments. See FO., Memorandum, L812.236375-77 and the answer in DGFP. B.XX, n.85, Der Botschafter in Rom an das AA, Rom 16.5.1932; among the numerous newspaper articles: La politica delle divise e gli scambi italo tedeschi, Il Sole, 26.5.1932. The German attempt to stabilize imports of eggs at 50% of the 1928 level is noted in D.E. Kaiser, Economic Diplomacy and the Origins of the Second World War, Princeton 1980.

31 Italian fears were not without counterparts in Germany, particularly in the mechanical industry, which was working at a very low level of capacity, exported most of its production and greatly feared retaliation from foreign markets. According to the article: Malumore contro la politica tedesca dei contingentamenti, Il Sole 17.9.1932, the German mechanics industry was working at 33% of its capacity in 1931-32 and the still low level of activity was more than 50% due to foreign demand [a claim whose importance I am not able to check]. Many circles opposed the government's agrarian policy; see La vivace reazione degli stessi circoli economici tedeschi, Il Sole 9.10.1932 and the column: Proteste e accordi, ibid. 4.10.1932.

32 Bdl. Azzolini, 69, Convenzione tra l'Istituto dei cambi con l'estero e la Reichsbank per i pagamenti derivanti dagli scambi tra l'Italia e la Germania, dated in pencil 18.6.1932. The Banca d'Italia acted as a cashier for the Istcambi.

33 The additional export procedure worked thus: the German importer paid in RM into the Istcambi account held with the Reichsbank (say 100 RM); the German exporter received RM within the limit of the sums paid in (the lire equivalent to the 100 RM at the current rate of exchange, say 1,000 lire).

In Italy the Italian importer paid in 1,000 lire (equivalent to the value of 100 RM of German exports) into the Reichsbank account with the Istcambi and the Italian exporter was paid within the limit of the 1,000 lire available.

If German registered exports were for any reason inferior to German registered imports, a negative balance piled up in Germany in the frozen balance of the Istcambi account (sums paid in > sums paid out: the negative sign of the balance refers to the Italian exports that could not be paid) and in Italy the Italian exporter could not be paid immediately and had to wait. In Germany the sums paid in were larger than the sums paid out and the exporter was paid without delay. See AA. W. Finanzwesen 16-Italien, b.1, Berlin 11 Juni 1932, Der Reichswirtschaftsminister an den Herrn Staatssekretär, and the third enclosure, Protocollo per regolare il pagamento dei debiti commerciali tra l'Italia e la Germania, 15.6.1932, K166958ff, also in Bdl. Introna 22.

34 It was to stay in force for three months, see Bdl. Azzolini 69, Disdetta dell'accordo di clearing tra la Germania e l'Italia? translated from the Berliner Tageblatt, 23.9.1932 n.239. In Summer 1932 trade recovered (Figure 3.1); nonetheless Germany withdrew. This was due to the fact that other European countries wanted to generalize the conditions that allowed the recovery of Italian exports which would have deprived Germany of all foreign exchange. See FO. Mussolini from Swend (transl.), Rome, 15.9.1932, L812.236566. As a consequence German

arrangements to the previous one, which was curiously called "voluntary clearing" or "Sperrkonto procedure"³⁵.

The account (Sperrkonto) opened with the Reichsbank was to be used for additional payments, and worked with a devalued RM. In Italy the coexistence of payments under the fixed allotments and under the additional trade gave rise to a double market for RM: one market for free or open marks deriving from Italian credits paid within the allotments and another market for blocked marks deriving from credits to be paid in clearing, i.e. that should wait for a balancing item in the Reichsbank account. These could be discounted by the Italian exporter to a bank³⁶. For his part, the German importer tried not to pay in clearing and attempted to sell his marks on the black market³⁷.

According to Ellis, the double market for RM led to a devaluation of the currency and was a sign of the intention to return to the free market for the German currency³⁸.

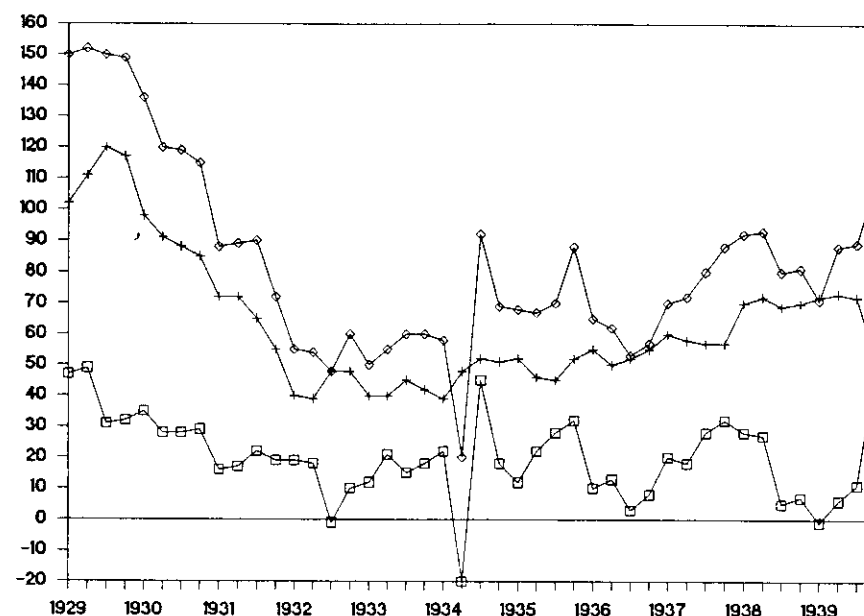
In principle the two accounts should have had a zero balance as the procedure was self-correcting through the delays imposed on the exporters. In actual fact, matters turned out quite differently as we will shortly see.

Initially, the effect of the additional export procedure was considered trifling by the Germans³⁹, but during the Summer of 1932, Italian agricultural exports to Germany increased rather rapidly and the overall merchandise balance became active for Italy for the first time in a long period (Figure 3.1).

Had it not been accompanied by the the additional export procedure, the quota allocation would probably have imposed a severe limitation on German purchases, contrary to what was claimed by the German authorities. One cannot deny that the "natural" course of the Depression, as Ellis reminds us⁴⁰, had greatly reduced both the value per unit and the volume of imports. But this is only part of the story: from 1931 to 1932 the value of imports of agricultural goods from Italy had fallen by around 25% when the 50% quota was enforced, and the drop was the outcome of a 19% fall in the average import prices and

of only an 8% reduction in volume⁴¹. The working of the additional export procedure was thus responsible for the "reduced decline" in Italian exports by at least 25%, and its importance increased over time parallel with the reduction of the allotments of RM.

Figure 3.1 German-Italian Trade. Quarterly Merchandise Balance. (Million RM).



+German Imports ◇ German Exports □ German Merchandise Balance

Source: Statistisches Reichsamt, Monatliche Nachweise über den auswärtigen Handel Deutschlands, various issues.

By the end of the Summer of 1932, the Germans had repeatedly tried to modify the agreement partly because it was thought that it did not adequately protect German agriculture and partly because it allowed additional exports to Germany, to the extent that it was able to buy additional imports from Italy. Germany had hitherto had a large export balance with Italy and was interested in maintaining it as a source of foreign exchange (for the part due in free exchange). If this kind of agreement had been generalized, it would have

importers were allotted RM, as before. The Italian Government replied assuring that only 25% of the German imports were to be paid in cash and 75% in a blocked account to be compensated towards Italian credits in Germany: BdI. Intronà 22, Istambi, circolare n.4., 30.9.1932. Fears for the German industry are expressed in AA. W. Finanzwesen 16-Italien, b.2., Reichsverband der Deutschen Industrie, Berlin, 4.10.1932, den Herren Mitgliedern der Handelspolitischen Kommission, K167163.

35 In difesa dei nostri scambi con l'estero, *Il Sole* 27.9.1932.

36 N. Tridente, Il pagamento in compensazione (clearing) negli scambi internazionali, *Rivista italiana di ragioneria*, 30.6.1933, n.6, p. 219.

37 In other words, to pay directly the German creditor of an Italian importer. See TdR. 4.19, Gli Accordi di compensazione conclusi dall'Italia al 31.12.1934, p. 10.

38 Ellis, *Exchange Control*, p. 184-187.

39 AA. W. Finanzwesen 16-Italien, K166958-60. The Reichsministerium für Ernährung und Landwirtschaft was strongly opposed to large agricultural imports, BAK., R 43/ 1/1097, *Aufzeichnung zu dem Devisenkonflikt mit Italien* (Ritter), Berlin, 4.10.1932, L107685 ff.

40 Ellis, *Exchange Control*, pp.183-84.

41 Table 3.1. The basic indexes do not add up to 25 as they are Laspeyres indexes.

destroyed the German active balance with industrial Europe⁴². In the dealing, the Italians were not in a strong position because their exports were not necessary to Germany and they found themselves under the threat of discrimination. In addition the Germans were interested in seeking Italian support during this period because of the repudiation of reparations at the Lausanne Conference⁴³.

Table 3.1. "Devisen" Allotted to the Foreign Importer and German Agriculture Imports from Italy. (Index Numbers).

Devisen			German Imports from Italy					
		Period	Agriculture			Finished Manufacture		
Period	Allotment		Value	Quantity	Unit value	Value	Quantity	Unit value
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
10.1930-2.1932	100	1931	100	100	100	100	100	100
3.1932	75	1932	75	94	81	63	74	89
4.1932	55	1933	69	87	71	55	77	85
5.1932-2.1934	50	1934	71	94	77	61	92	81
3.1934	45							
4.1934	36							
5.1934	25							
6.1934	10-5							

Source: (1), (2), G. Radio von Radiis, *Die deutsche Außenhandelspolitik*, p. 14.

(4) to (9) Statistisches Reichsamt, *Monatliche Nachweise*, various issues. The index numbers are Laspeyres, 1929 base.

A new agreement was reached on 1st October. The old procedure was restored with the modification that in the supplementary trade, the proportion between imports and exports which had been obtained in 1931 should be retained. This was called the Swedish clause, as it was embodied in similar

42 DGFP. B.XXI,n.85, Aufzeichnung (von Ministerialdirektor Ritter) zu dem Devisenkonflikt mit Italien, 4.10.1932 and B.XX n.110, which underlines the fact that this policy had weakened the position of the Reichsbank.

43 This theme appears in several documents. For example BAK. R. 43/1/1097, Aufzeichnung, L107685, AA. W. Finanzwesen 16-Italien, Rom, 28.5.1932, K166891 ff. and DGFP. B.XXI, n.100, Berlin, 11.10.1932.

The failure to reach an agreement (The Italians had already threatened, before summer, to block payments of German exports, depositing 85% of the total in a blocked account with the Istcambi. See Groja, *La politica doganale*, p. 561 and AA. W. Finanzwesen 16-Italien, K166891 ff.) led Germany to dissolve it by the end of September retaining a special measure to permit imports of wine (FO. Mussolini from Swend, L812.236566.). Under the negative influence created by the German quota measures, Italy replied by placing a complete embargo on exchange dealings with Germany.

agreements with this country. It was in principle very important, as it allowed Germany to maintain its 1931 surplus in trade with its European neighbours⁴⁴.

In 1933 and 1934, the reduction of "Devisen" quotas pushed the bulk of trade with Western Europe into channels covered by the "additional import" procedure where imports were permitted in excess of amounts purchased with "Devisen".

Table 3.2. Amount of RM "paid in" by German Importers in Istcambi Account held within the Reichsbank and German Imports from Italy.

German Imports		Amount "paid in"		"paid in" Imports · 100
Period	Amount	Period	Amount	
1932	181,302,000	up to 30.4.1933	37,193,170	20.5
1933	166,440,000	1.5.33 to 31.3.34	100,013,728	60.0

Source: Bdl. Relazioni e bilanci, Istcambi, Bilancio dell'esercizio, 1932,1933, r. 25.

Moreover the Swedish clause did not impede the reversal of the overall German balance from active to passive. Countries under the "additional" procedure accounted for 50% of the reduction in the German export surplus from 1933 to 1934⁴⁵.

In the end, the entire manoeuvre revealed many weak points against Germany: an undesirable composition effect, as in many cases agricultural imports were not effectively checked (Table 3.1.), and an undesirable increase in imports as probably the additional procedure was misused in many cases, importing goods originating in other countries to Germany. The so-called Holland clause, which required a certificate of origin, broke down under evasion. The result in Germany was a cumulated debt which showed up in the amount "paid in" by the German importer in the account held within the Reichsbank⁴⁶.

Italy is a case in point. The Istcambi RM account held in Germany had a

44 The necessity of the clause is in AA. W. Finanzwesen 16-Italien, b.1., Protocollo per regolare il pagamento..., Roma, 6.9.1932, K167022. See the documents from K167045 to K167234 where the usefulness of such a clause is taken into account. German negotiators also tried to keep the ratio between agricultural and industrial imports equal to 1 but less successfully or with less interest. See: *The Economist*, 22.10.1932, p.735 and 19.11.1932, p.931.

45 Ellis, *Exchange Control*, p.206. This is not the specific case of Italy, whose merchandise balance registered in the country's trade statistics stayed unchanged. Nevertheless, German accounts went into the red also with Italy.

46 In August 1934 German clearing debts amounted to a total of 450 million RM, or half the size of her 1934 deficit. Trade with the clearings countries, in 1934, was 38% (imports) and 48% (exports) of the total German trade.

negative balance which was about 8 million RM at the end of 1934⁴⁷; this meant that Italian exporters could not be paid and thus acted as a frozen balance. When this occurred, the RM the German importer would pay into the account did not lead to the payment of lire to the Italian exporter, who was advised not to export to Germany: German trade statistics show in fact a decisive drop in exports during Spring 1934 (Figure 3.1).

In 1931, 1932 and 1933, the balance of the current account between Italy and Germany had always been in favour of Germany, certainly as far as the merchandises, the only item to be included in the reciprocal accounts held with the Reichsbank and the Bank of Italy, were concerned⁴⁸.

Some sources permit the contradiction to be clarified. Part of the Italian payments of German goods were made in different currencies and the Germans arranged for the invoices of their goods sent to Italy to be registered in a third currency through their agencies outside Germany⁴⁹. Possibly Italian exporters may have been reluctant to utilize the Sondermarks accumulated in Berlin and delivered goods on credit in the hope that payment would shortly be made in any case⁵⁰.

The accumulation of a total of 450 million RM in commercial debt was not, per se, a great problem for a large debtor like Germany but it showed a bottleneck in the effectiveness of German commercial policy. As President Schacht put it, "the accumulation of debt does not press upon us as far as concerns foreign exchange, but it is likely to produce unfavourable psychological effects"⁵¹. More importantly Germany was unable to maintain the old sources of free exchange.

The admitted failure of the quota system in allocating foreign exchange was one of the preconditions for the introduction of the Neue Plan. The Neue Plan cannot be regarded as a system of exchange control, but it certainly involved an adaptation of the system to the new procedures of entirely controlled trade.

47 The sum registered at the first statement of the Verrechnungskasse is 7.700.000 RM. See BAK. R. 2/13691a, Deutsche Verrechnungskasse, 12.1.1935 and *ibid.* R.2/13692, Geschäftsbericht der Deutschen Verrechnungskasse für das Jahr 1935.

48 It was not easy for the creditor to negotiate his credit; only in 1937 did the Istcambi (R.d.I. 11.1.1937, G.U. 14.1.1937 n.10) issue credit certificates, in lire, which could circulate and be discounted like ordinary bills of exchange. See C. Pagni, Finanziamenti per i crediti derivanti da esportazioni in clearing, *Rivista italiana di scienze commerciali*, 3, 1.1937 pp. 45-49.

See also: I crediti degli esportatori italiani in Germania, *Il Sole* 18.9.1934.

49 Come dovranno essere regolati gli scambi italo tedeschi, *Il Sole* 22.9.1934.

50 Yet this claim was denied by the Italian press, who declared this could not possibly be the case of the small, non-organized Italian agricultural export market, La politica delle divise e degli scambi commerciali italo-tedeschi, *Il Sole*, 17.5.1932. The denial looks rather "official", against the alleged rumour of capital flight in the same year: see Hirschman, *Memoria*, p.189 who quotes also Banca d'Italia, Adunanza generale ordinaria degli azionisti, 1934.

51 Reported in Ellis, *Exchange Control*, p.208. Contrary to this H. Arndt connects this problem with the recovery of the domestic economy and considers it to be of a more structural character; see H. W. Arndt, *Gli insegnamenti economici del decennio 1930-1940*, Torino 1940, p. 296-297.

4. The Working of the Clearing Agreement

The enforcement of the clearing with Italy was part of a general movement that started with Switzerland and France in the Summer of 1934. Bilateral trade with Italy went back into the red in Summer 1934 after one year of surplus, adding the seasonal increase of Italian agricultural sales to Germany to the decrease of German exports (the decrease in the surplus in the Summer-Winter months of 1934 is clear from Figure 3.1.). Rumours about a possible suspension of payments between the two countries were spread⁵² while the Neue Plan, with its strict agricultural imports control, would have in any case had considerable effects upon Italian exports to Germany. The clearing agreement was a possible solution to these hindrances. Laborious negotiations had started during the Summer in Berlin between the Italian and German delegates, which led to the signing of the agreement on 29th September 1934⁵³.

The clearing agreement was in force from 1st October 1934⁵⁴. It differed from the previous agreement⁵⁵ on two main points: 1) it provided for the payment of German financial liabilities, 2) it guaranteed a foreign exchange surplus at the unrestricted disposal of the Reichsbank, stated as a percentage of total German exports⁵⁶. The reason for this was that Germany exported mainly finished goods and imported primary goods and services; the former had an import content of raw materials that Germany had to buy abroad and pay for in foreign currency, i.e. they had a hard currency content that Germany tried to pass on to the final purchaser⁵⁷.

52 Temporary suspension of payments was the result of the ceiling on the special accounts set up in clearings with Switzerland and France to prevent the accumulation of debts due to the "additional exports" procedure; other countries, objecting to such a ceiling, were given notice of termination of the agreement. DGFP. C.III, n.169, Circular of the Foreign Ministry, Berlin 20.8.1934. The general situation is described in NARA. 862.5151/1313, Report from the Embassy to the Secretary of State, Berlin 23.8.1934.

The ceiling with Italy was stated as 14 million RM and accepted by the Italians, FO. Sonderreferat W, Verträge 6, Dall' Ambasciata d' Italia al Sottosegretario di Stato, 15.9.1934, M77.002936.

53 DGFP. C.III, n.175, Circular of the Director of the Economic Department, Berlin, 25.8.1934, n.7 and AA. W. Finanzwesen 16-Italien-b.5, Ministero degli Affari Esteri, Pro-Memoria, Roma 1.8.1934, E671072.

54 Negotiations are reported in DGFP. C.III, n.155, The Foreign Ministry to the Embassies..., Berlin, 11.8.1934, footnote 6. The agreement is published in G.U. 29.9.1934, XII, n.229. Three general accounts of the first steps of the clearing agreement are: Clearing e piano Schacht, *Affari esteri*, 4.11.1934, G. Borgatta, Note e rassegne, *La Nuova Antologia*, 69 (1503), 1934, pp.136-141 and L' accordo italo tedesco, *Il Giornale d'Italia*, 28.9.1934. From the German side see H. Werner, *Die Deutschen Verrechnungsabkommen in den Jahren 1932-1934*, Dissertation, Univ. Köln, Würzburg 1936.

55 Sometimes referred to as a clearing, i.e. DGFP. C.III, n.169, p.346 and *ibid.* n.13, The Concept of Barter in German Commercial Policy, Circular of the Foreign Ministry, 18.6.1934.

56 After Germany had paid all her trade and financial debts. See DGFP. C.III, n.169.

57 *Ibid.*, C.III, n.13, p.33.

Clearing agreements of this kind could only be concluded with countries with which Germany maintained an active trade balance, more precisely an active balance of payments with respect to all the items included in the agreement.

The procedure of the clearing enforced in early Autumn 1934 was the same as that of the previous agreement, i.e. that the Italian exporters should be able to have the payment of the goods sold in Germany within the availability of the remittances in foreign currency arriving from the sale of German goods in Italy and vice versa.

Reciprocal payments were arranged by the Bank of Italy, acting as a cashier of the *Istcambi*, and by the *Reichsbank* as a cashier of the *Verrechnungskasse*, a governing body set up to deal with exchange controls⁵⁸. The two banks credited each other with the remittances of their own importers, on the basis of the rates of exchange established in the agreement, which was the market rate. Payments out to creditors were made in their own currency, within the limits of the availability of the accounts and according to the chronological order of the sums paid in.

The agreement stated that a percentage of the sums paid in by Italians in the account held by the *Istcambi* and made out to the *Deutsche Verrechnungskasse* had to be kept at the free disposal of the *Reichsbank* to deal with the hard currency content of the German exports (*Verrechnungskasse* free account or account C, art.9). The quota was fixed at 10% of the total Italian imports by a secret protocol⁵⁹ and, of this, 2.5% was bound to the payment of coupons of the Dawes and Young loans maturing in October and December 1934⁶⁰.

The remaining 90% was tied up in the following way:

- 80% to pay for Italian goods exported to Germany, plus freights, insurance, customs etc. Any monthly advance of the account was tied to the payment of future Italian exports (account A)⁶¹.
- 10% to pay for German tourism in Italy net of Italian tourism in Germany (account B)⁶². The bilateral merchandise balance between Germany and Italy

58 RGBI. I S. 997, also BAK. R 2/1369 1a, *Reichsbank-Direktorium*, Berlin, 6.12.1934.

59 AA. W. Finanzwesen 16-Italien, b.7, Berlin, 26.9.1934, *Protocollo riservato all'accordo per il regolamento dei pagamenti tra l'Italia e la Germania* (accordo di compensazione) and *ibid.*, b.6, *Associazione di tecnica bancaria. Norme per il regolamento dei pagamenti tra l'Italia e la Germania*, Milano 20.10.1934. Of course the Italians tried to reduce the percentage and the Germans to increase it; its size ranged from 9% to 11%. A synopsis of the various drafts is in Bd I. Azzolini 69, *Da Berlino al Governatore*, 21.9.1934.

60 AA. W. Finanzwesen 16-Italien, b.8, sb.9, *Deutsche Verrechnungskasse*, Abschrift, 17.1.1935, *ibid.*, b.5, *Aktenvermerk*, Berlin, 14.9.1934, E671122.

61 AA. W. Finanzwesen 16-Italien, b.6, sb.7, 26.9.1934, *Erklärung enclosed Protocollo riservato*.

62 This amount could be changed at the start of each month by reciprocal negotiations: AA. W. Finanzwesen 16-Italien, b.6, sb.7, *Protocollo riservato*, and indeed it was!. All these percentages were stated in the secret annex protocol so as to improve the flexibility of the agreement. There was also a "miscellaneous transfers" account (art.10) which registered passenger freights, the balance of postal and railway services, patents and some financial credits and all

had for many years been against Italy, and the Italian passive side of the current account was mainly due to payment for the import of goods. From the beginning of the century to 1930, the ratio of German imports to German exports had varied from 0.65 to 0.80⁶³. So the functioning of the clearing presupposes an increase in German imports or a decrease in Italian imports over the previous period, or a continuous transfer to account A from the accounts opened to the invisible items. The Italian delegates were able to press for a reduction of Italian imports, which was the only thing they could really control⁶⁴; the Germans tried instead to maintain their level of exports and to keep an overall balance, tourism included⁶⁵.

Transfers within the clearing were still in need of a licence from the respective governments to allow the banks to credit the respective accounts, but the fear for Italian exports to Germany had greatly relaxed because they were no longer subject to the unilateral limits ruling imports into Germany set up by the system of the Supervisory Offices⁶⁶, but to the limit created by German exports and tourist expenditure in Italy. The limit would not come into operation if sufficient incentives were provided for Germans to export to Italy and for German tourists to come to Italy.

The principal agreement was supplemented by an arrangement which ensured 100% quotas for each country on the basis of 1934 trade⁶⁷. On the question of coal, large imports were negotiated with the Italian railways to allow a quick recovery of past commercial debts⁶⁸. The Germans gained an

transfers that the respective governments agreed to put into this account. Its monthly balance had to be transferred to the merchandise account.

To recover the arrears in favour of Italy, 10% of the "payments in" and the balance of the miscellaneous transfers were deposited in Germany in an account called "Liquidazione", that took charge of all past Italian financial and commercial claims (also the revenue from sales of public and private bonds of Italian property). This account was closed after a few months with their complete payment. The agreement could be dissolved every six months and the secret protocol stated that if there were heavy unbalances in the accounts, the two governments should meet and clear them out.

63 Depending on the year and whether German or Italian statistics were used, and keeping in mind that imports are CIF and exports FOB.

64 Italians claimed on several occasions they needed to reach a balance in their external merchandise transactions bilaterally to save foreign exchange and considered the clearing an effective way to do it. With Germany, at most, they were prepared to take into account tourism: AA. Ha.Pol. Clodius, 22/1, Berlin 13.7.1934.

65 AA. Ha.Pol. Clodius, Berlin, 12.6.1934 and *ibid.*, Berlin, 13.7.1934, *Ergebnis der am 12. und 13. Juli 1934... Bersprechungen über die Gestaltung der Wirtschaftsbeziehungen zwischen Deutschland und Italien*.

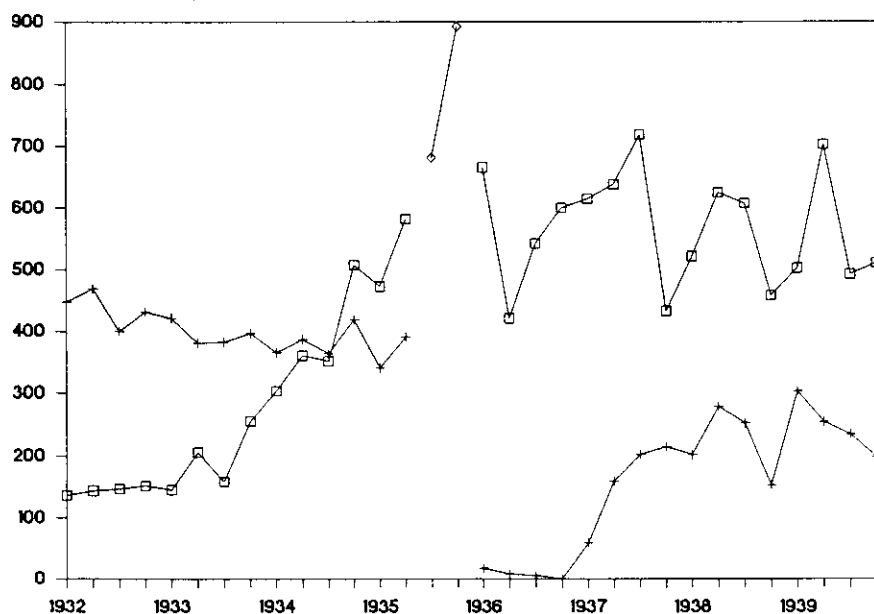
66 DGFP. C.III, n. 175.

67 PRO., Foreign Office 371/2049, Sir E. Drummond to Mr. Eden, Rome 8.7.1936.

68 In 1933 and 1934 coal was bought only from Germany and this raised English fears to the highest point, see PRO. Board of Trade 11/310, Memorandum by the Mines Department, Annex B, 26.3.1934, *ibid.*, Special Position of Coal Memorandum by the Mines Department, 26.3.1935 and PRO. Foreign Office, R 1959/2/22, Memorandum enclosed in E. Drummond to J.Simon, 12.3.1935.

additional quota, representing the proportion due to the Saar, which had since come into the German customs regime and the Italian railways undertook to purchase two million tons of coal from this area⁶⁹. With the clearing, in August 1934, Italian coal imports from Germany doubled and moved definitely ahead of imports from the U.K..

Figure 4.1. Italian Imports of Coal from Germany and U.K. , Monthly. (Thousand Metric Tons).



□ from Germany ◇ from Germany (estimated from German sources) + from U.K.

Sources: Ministero delle Finanze, *Movimento commerciale del Regno d' Italia*, Roma, subsequently ISTAT, *Commercio di importazione e di esportazione*, Roma, Statistisches Reichsamt, *Monatliche Nachweise*.

69 AA. W. Finanzwesen 16-Italien, b.6, Erklärung, Berlin 26.9.1934, E671136; *ibid.*, b.5, Aktenvermerk (Ritter), Berlin 14.9.1934, E671122 and *ibid.* b.9, Reichs- und Preußische Minister an das AA (Koeler), Berlin, 23.5.1935.

At the same date of the clearing another agreement concerning tourism had been signed⁷⁰. The positive effect of the recovery of German exports and of German tourism after the opening of the clearing, in the third quarter of 1934, are very clear (Figure 3.1). On the whole German tourism to Italy covers more than 50% of the residual items reported in Figure 4.2 (Table 4.1).

An additional agreement signed in 1935⁷¹ dealt with the interest of the Dawes and Young loans: the lire paid into the "miscellaneous transfer" account could now be used to pay the service of the German loans Dawes and Young subscribed in Italy⁷². The amounts subscribed in Italy were 100 and 110 million lire and in the first few months of 1934, 78.26 million and 103.9 million lire were still circulating⁷³.

During the first month of the working of the clearing agreement the sums "paid in" in Germany were lower than "payments out" and the German position was burdened with unpaid debts due to Italian firms; the German debit balance went from 8 million RM up to roughly 27 million RM in a few months (December 1934, Table 4.2, Col.2).

In the Spring of 1935 two decrees introduced rigid import control in Italy, creating special Import Committees⁷⁴ and on 16th April a new agreement was concluded, due to the need to prevent a further fall of German exports to Italy (Figure 4.1.). Exports were allowed at the 1934 values, except for four lists of goods of minor importance⁷⁵.

70 The German government allowed tourists going to Italy to take with them 500 RM per month per person plus 50 RM cash, just as before the German restrictions had come into force. See G.U. 6.6.1934, n.132, *Accordo concernente il traffico turistico con la Germania*.

71 Bdl. Azzolini 69, September 1934, *Accordo per il servizio degli interessi del prestito estero germanico 7% del 1924 (prestito Dawes) e del prestito del Reich germanico 5 1/2 del 1930 (prestito Young)*.

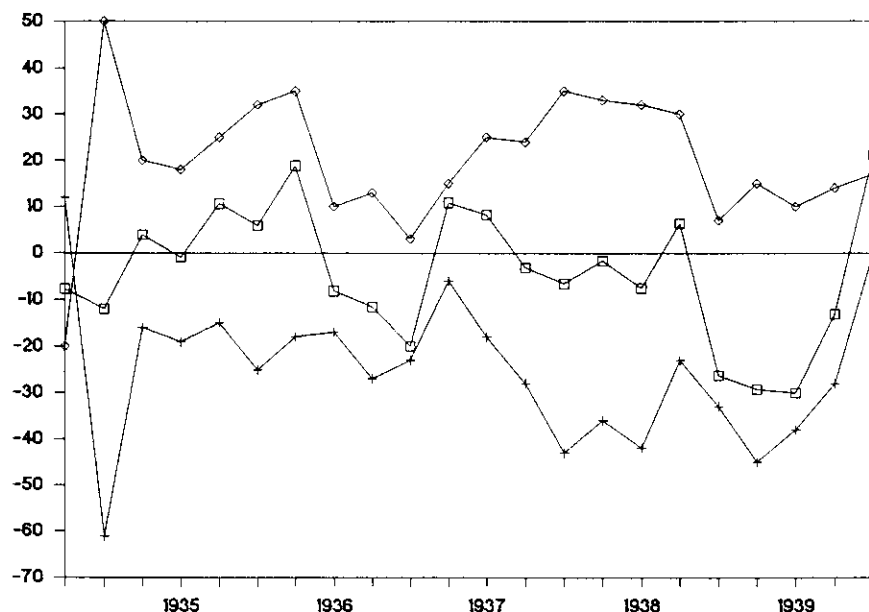
72 Bdl. Introna 22, for the relative Protocollo di firma.

73 Borgatta, *Note e rassegne*, p.138 ff. With the German transfer moratorium, the value of these bonds was reduced to less than 1/4 of the nominal. In principle it was now possible for the German debtor to make these payments through augmented Italian exports, a small percentage of which had been reserved to be put into the "miscellaneous transfers" account (AA. W. Finanzwesen 16-Italien, b.6, *Scambio di note*, 27.7.1935). The Bank of Italy stated that it would pay the Dawes and Young coupons regularly held by Italian citizens at full nominal value (If owned by Italians but issued in currencies other than lire, 50% was paid by the trustee and 50% by the Bank of Italy, with coverage by the Italian Treasury. They were paid entirely by the Bank of Italy if issued in lire, Bdl. Azzolini 69, *Comunicato stampa* dated 3.10.1934), and the course of the two bonds immediately recovered. The Bank paid them entirely till 1.12.1935, while in 1936 the Bank was authorized to purchase matured coupons at a lower rate in Italian lire, as the result of a subsequent agreement with Germany lowering the interest on them, PRO. Foreign Office, E.M.B. Ingram to Mr. Eden, British Embassy, Rome 31.7.1936, f. 371/20409. They were paid almost entirely at 1.6.1935, Bdl. Azzolini 69, *Cedole sulle quote italiane pagate a tutto il 31.10.1935*, w.d..

74 Ministerial decree 26.2.1935 and 23.6.1935. The last one limited import of dyes from Germany, see Banca d'Italia, *L'economia italiana*, pp.240 ff. and: I provvedimenti del Sovrintendente, Il Sole, 12.6.1935 while German fears are expressed in DGFP. C.IV. n. 410, The Ambassador in Italy to the Foreign Ministry, Rome, 14.11.1935.

75 FO. Rome, 16.4.1935, *Accordo per regolare il pagamento tra l'Italia e la Germania*, 5993/

Figure 4.2. Merchandise Balance (Trade Statistics), Residual Balance and Variations in the Verrechnungskasse Balance, Quarterly. (Million RM).



◇ Merchandise Balance + Residual Services □ Verrechnungskasse Balance
 Merchandise (cif) balance shifted, from trade statistics.
 Variations in the Verrechnungskasse balance, from the Verrechnungskasse monthly financial statements. From Table 4.2 Col. 8.
 Residual item due to services, tourism, capitals are defined as the difference between the Verrechnungskasse "total in" and the variations in the Verrechnungskasse balance and the imports cif. shifted. From Table 4.2 Col. 4.

Between April 1935 and March 1936 the increasing Italian imports from the German extra quota due to the Ethiopian war and the recovery of the domestic economy led to a reversal of the standing (Table 4.2 Col. 8 and Figure 4.2); Italy thus became the debtor and Germany the creditor in the commodity account⁷⁶. In December the A account showed a balance in favour of Germany

E441797 and the secret protocol in AA. Ha.Pol. Wiehl, 17/1 Zeichnungsprotokoll zum Abkommen zur Regelung des Warenverkehrs zwischen Deutschland und Italien vom 16. April 1935.

⁷⁶ The commodity account is a cumulated account, and in 1935 it took a positive sign; tourism and the miscellaneous transfer account had a negative sign.

amounting to 14 million RM⁷⁷ and an overall balance still in favour of Italy of 7.7 million RM, due to the invisible items (Table 4.2 Col. 2, Figure 4.2). Naturally, the overall balance was slow to change its sign; this happened in January and the Italian total debt reached its peak of 20 million RM in February 1936⁷⁸.

In 1935 Italy was in fact in need of coal to replace the interrupted shipments from Wales, due to sanctions⁷⁹. It asked for the 1934 quota three times with a clearing balance already under strain. The general account and the tourism account allowed payment of only 2/3 of the additional amount required by the new imports of coal⁸⁰. A secret agreement was signed on 25th September 1935 stating that 30% of the total value of the coal imported by Italy from Germany since 1st September 1934 would be paid into the Reichsbank free account⁸¹ while the remaining 70% would be divided from time to time between the merchandise account and the tourist account. Five million RM would be recovered through the Hungarian clearing⁸² and about 2 million through the Bulgarian clearing with a triangular settlement⁸³.

⁷⁷ The probable balance of the A account is estimated as "total in" times 0.80 minus exports fob, see Table 4.2.

⁷⁸ In Winter Italian entrances slowed down due to the reduced tourism and reduced agricultural exports.

⁷⁹ These years were crucial in the deterioration of the British export position on the Italian market; "...Britain could not tolerate it if her coal trade were in future no longer to be carried on by herself, but by others and especially by Germany. For Britain that was the crux of the matter..." DGFP. C.IV. n.326, Memorandum by the Acting State Secretary, Berlin, 4.10.1935. But of course from the German side "...it is the endeavour of German trade policy to maintain this advance permanently, as far as possible", DGFP. C.V. n.511, Circular of the Foreign Ministry, Berlin 17.8.1936.

⁸⁰ According to the calculations presented in AA.W.b16, Finanzwesen 16-Italien, Vermerk. Zusätzliche Kohlenlieferungen nach Italien, Berlin 5.9.1935. The effective percentage is stated in ibid., Deutsche Verrechnungskasse an das AA, Berlin 15.10.1935, M011483-84.

⁸¹ A limit of 3,200,000 ton. from September 1935 to December was stated, see FO. Dall' ambasciatore al Ministro degli Esteri, Berlino 25.9.1935, E679158-60. Also DDI. n. 427. Attolico a Ciano, 12.2.1939 that summarizes the past relations between the two countries. Possibly, in Munich in December, a payment of 50% in free exchange due to the huge imports of coal might have been negotiated (more than 90% of the first quarter of 1934), see Bdl. Beneduce, r.112, f.1202, Munich, 9.12.1935 and Bdl. Rapporti con l'estero. r.37, f.1547, Cauli a Azzolini, Roma 20.12.1935 where one reads that coal is paid 50% in free currency. A payment in free exchange over 30% can be deducted from the large payments in free exchange in the year 1936, which were 15% of the total value of Italian imports, i.e. 7.5% due on imports less coal + more than 30% due on coal.

⁸² AA. W. Finanzwesen 16-Italien, Vermerk, 5.9.1935, ibid. Attolico from the Secretary of State F.v.Neurath, Berlin, 25.9.1935 and ibid. Deutsche Verrechnungskasse 15.10.1935, M011483-84.

⁸³ Bdl. Rapporti con l'estero, r.37, f.1410 ff. From f.1420 to 1446 the correspondence with the Banca Commerciale Italiana who held the credits: in particular Promemoria. Pagamento dei crediti vantati dal gruppo Comit w.d., f.1415. A curiosity is an alleged payment of German coal with Austrian bonds in Italian hands, engineered by some Nazi Party leaders in order to provide the Party with funds in Austria; the rumour is reported in PRO., Foreign Office, 371/20409, From the British Embassy, Berlin, 3.2.1936.

Table 4.1. German Clearing. Items "paid in", in Germany. (Million RM).

Merchandise		Invisible Items								Others		Total	
		Tourists		Services		Capitals		Free Exch.					
Italy	Tot	Italy	Tot	Italy	Tot	Italy	Tot	Italy	Tot	Italy	Tot	Italy	Tot
1935	167 1,807	36 102	20 240	15 232	24 138	27 458	290 2,979						
1936	196 1,933	39 78	21 115	4 115	29 135	10 426	300 2,956						
1937	199 2,256	41 81	26 117	14 117	21 124	29 311	330 3,299						
1938	248 2,391	54 96	54 113	28 113	14 134	6 285	405 3,412						
1939	259 2,773	37 80	82 223	28 223	7 131	32 381	441 4,091						

Source: BAK, R2/13694, Geschäftsbericht der Deutschen Verrechnungskasse für das Jahr..., various years.

Nevertheless, the German government allowed the Italian debt position in the merchandise account to continue "not desiring to impose harsh treatment on a necessitous debtor who had so recently been a patient creditor"⁸⁴. The coal producers' interests were nevertheless firmly protected in Germany: in December the Kohlensyndikat stopped the shipment of coal to Italy due to some delay in payments, and started it again only when the Bank of Italy guaranteed the transfer of the free exchange⁸⁵.

The subsequent negotiations⁸⁶ were held in Munich on 20th December 1935⁸⁷; they had a financial and a real side.

In order to reduce the Italian debt in the A account and in view of the rapidly increasing Italian overall debt (Table 4.2 Col. 8), it was decided: 1) to transfer a certain amount from the tourism account to the A account to guarantee immediate payment to the German exporters, 2) to move towards a balance in the merchandise account through a reduction of Italian imports and an increase in its exports. Italian imports of certain important items should be reduced to 80% of the 1934 values, trebling the number of products included in list B, which included many mechanical products; this move turned out to

be of little consequence⁸⁸.

The agreement had to face the sanctions and took account of the need to conduct trade under emergency conditions so that Italy could make further extra quota purchases from Germany, but they had to be dealt with case by case and settlement had to be effected both in hard currency and commodities⁸⁹. In this way the Italian government could no longer hope to procure unlimited supplies in Germany against the accumulation of frozen lire in Italy, a praxis to which the Germans were keen to recur later on during the war years.

Italian payments in free exchange were rather significant (Table 4.1); their amount was very high in relation to the merchandise movement, the highest among the clearing countries, and it may be that the amount registered in the Istcambi account does not include all transfers of free exchange into Germany.

The large payments in free exchange to Germany and to the other non-sanctionist countries, mainly the USA and Romania, meant that "a lot of devisen changed hands"⁹⁰ to pay for the war purchases to the important suppliers and to pay freights for the transport of Italian troops to Africa. After October 1935 the lira was in fact devalued on the European markets⁹¹ and its position was worsened by the sale of the lire from the Reichsbank's free reserve on the free market⁹². A supplementary agreement placed the exchange risk on the shoulders of the Italian debtors⁹³.

The paucity of foreign currency reserves enforced a rigid import control in Italy that was used to limit imports of manufactured items and import coal, steel, steel plates and aluminium selectively from Germany. The quota of the raw materials imported from Germany went up from 31% in 1934 to 35% in 1935 and 1936 and the concentration index of German exports to Italy increased noticeably over the 1934 value, mainly due to the augmented sales of coal.

88 Exports in 1936 stayed well below the 1934 value. The imported value, in 1936 of the goods included in list B was around 2,000,000 RM while the total allowed was around 90,000,000 RM; our calculations on AA. W. Finanzwesen 16-Italien, b.11, Accordo addizionale.

89 "Bei dem gegenwärtigen Stand der Verrechnungskonten...[ist] es aber im Interesse...daß alle zusätzlichen Warenlieferungen nicht mehr im Wege des Verrechnungsabkommens bezahlt werden..." AA. W. Finanzwesen 16-Italien, b.11, Deutsche Verrechnungskasse, Abschrift, Berlin, 2.12.1935. Clodius tried to end the clearing and take all payments out of it, Bericht über das neue deutsch-italienische Wirtschafts- und Verrechnungsabkommen. Ibid. Milano, 4.1.1936.

90 PRO. FO. f.371/20409. In retrospect, sanctions were viewed by Italy essentially as a currency problem and not a problem in finding adequate supplies: DDI. n. 342.

91 Guarnieri, Battaglie economiche, v.1, p.412.

92 Bdi. Azzolini 69, da Cimino, Berlin, 13.12.1935. The Reichsbank mainly converted lire into French Francs, Bdi. Beneduce, r.98, f.1220 ff.

93 From now on the Italian debtor is freed not when he pays in, but only when the creditor has received the amount in RM, Bdi. Azzolini, 69, 6.12.1935, AA. W. Finanzwesen 16-Italien, Kurssicherung und Exportzuschuß, Milano 4.1.1936 and FO., from Attolico to Ministerialdirektor H. Dieckhoff, Berlin 20.12.1935, E679210-11. Although the average delay in payments lasted no longer than 9 days in 1936, this provided a significant guarantee to the German creditor as rumours of devaluation of the lira were widespread according to PRO. FO., Italian Embassy to von Neurath, Berlin, 25.9.1935, E679158-60.

84 PRO. Foreign Office, f. 371/20409. Till December the overall balance remained in Germany's favour but it was rapidly vanishing.

85 DDI. n. 342, Guarnieri a Ciano, Roma, ..., 11, 1939 and Bdi. Azzolini 69, various letters dated December 1935; the same in Bdi. Rapporti con l'estero, r.37, f.1471 ff. Germany was in debt overall so the problem with Italy was not due to the fear that the German debtor would not be paid but that what was due in free exchange would not be paid.

86 Italy wanted to have credit from Germany and at the same time cover the debit in clearing, see DGFP. C.IV, n. 410 and n. 438, Two Memoranda by the State Secretary, Berlin, 2.12.1935 and 3.12.1935. The editor of DGFP allows the existence of a possible agreement on financial transfers but notices that no trace was found (C.IV, p.874 n.411 e CIV. n. 67, Editor's note, ibid. p.930). This arrangement was not in force by mid-1937, see Bdi. Rapporti con l'estero, r.20, Roma, 10.5.1936, but I believe it was subsequently concluded.

87 This is a complementary agreement to that of 16.4.1935, and was signed in Munich the 9.1.1936, see AA. W. Finanzwesen 16-Italien, b.11, Accordo addizionale per il regolamento degli interscambi tra l'Italia e la Germania.

Table 4.2. Istcambi RM Account Balance and Merchandise Balance Shifted, Quarterly. (Thousand RM).

Date (1)	Istcambi account cum.bal.at (2)	German imports cif shifted (3)	Residual item (5)-(3) =(4)	Total in (8)-(7) =(5)	German exports fob (6)	Total out (7)	Variations in balance (5)-(7)= (2) (8)
16.Oct.34	-15,485	-43,127	12,042	-31,085	21,981	23,300	-7,785
31.Dec.34	-27,445	-52,111	-61,371	-113,482	95,775	101,522	-11,960
30.Mar.35	-23,344	-50,310	-19,184	-69,494	62,937	68,583	-911
30.Jun.35	-24,255	-41,155	-15,103	-56,258	61,313	66,862	10,604
30.Sep.35	-13,651	-41,941	-25,963	-67,904	67,944	73,891	5,987
31.Dec.35	-7,664	-51,741	-18,074	-69,815	86,109	88,685	18,870
30.Mar.36	11,206	-54,355	-17,457	-71,812	62,482	63,640	-8,186
30.Jun.36	3,038	-48,475	-26,952	-75,427	62,612	63,787	-11,640
30.Sep.36	-8,602	-52,099	-23,041	-75,140	54,416	55,090	-20,050
31.Dec.36	-28,652	-53,615	-5,783	-59,398	61,077	70,172	10,773
30.Mar.37	-17,879	-51,897	-18,523	-70,420	69,103	78,679	8,259
30.Jun.37	-9,620	-58,053	-28,014	-86,067	73,026	82,838	-3,229
30.Sep.37	-12,849	-54,890	-43,458	-98,348	81,399	91,713	-6,635
31.Dec.37	-6,214	-56,201	-36,495	-92,696	87,757	91,008	-1,688
30.Mar.38	-4,526	-68,200	-42,372	-110,572	94,600	102,952	-7,620
30.Jun.38	-12,146	-70,900	-23,028	-93,928	96,600	100,382	6,454
30.Sep.38	-5,692	-74,200	-32,737	-106,937	78,000	80,666	-26,271
31.Dec.38	-31,963	-70,900	-45,917	-116,817	79,900	87,491	-29,326
30.Mar.39	-61,289	-75,400	-37,996	-113,396	75,500	83,341	-30,055
30.Jun.39	91,344	-77,600	-28,807	-106,407	85,400	93,241	-13,116
30.Sep.39	-104,510	-76,200	613	-75,587	88,900	96,741	21,158
31.Dec.39	83,352						

Method:

This table considers the Verrechnungskasse balance at the end of each quarter and traces it back to its main components.

Column (2) represents a stock; (3) to (8) quarterly flows.

We start with a cumulated quarterly balance of the Istcambi account, in RM, in (2) on 16.10.1934 and with a quarterly balance of variations of (2), which are written in (8); these are calculated from monthly data. The variations of the successive data in (2) are computed as algebraic sums of the monthly balances of (8), made for three months.

From the yearly figure (31.12) of the "total out" the quarterly figures are estimated starting from quarterly data for exports, adding an estimate for freights (roughly 9%). From quarterly "total out" and quarterly variations in balance we computed the "total in". Lastly we broke it into the two main components, imports (from trade statistics) and a residual.

Imports are shifted taking into account the average delay in payments, in (3), estimated in 90

days. Import and export values are taken by the trade statistics, and therefore are not, in principle, comparable with payment data but, of course, reflect payments. They seem to provide a rough indicator of the sequence of payments in and out due to the merchandises. The "total out" (7) equals exports + estimate of freights and other services provided by Germany estimated so as to reconcile the total export value from trade statistics with the sums paid out; we know its yearly value from the Verrechnungskasse balances. The distribution within the quarters is arbitrary.

The "total in" (5) is obtained deducting the "total out" algebraically from the variation in the balance.

Residual (4) is the difference from the "total in" (5) and the imports value cif (3).

Sources: (2) Verrechnungskasse monthly balances: BAK. R2/13691a and 13692, Deutsche Verrechnungskasse. An den Herrn Reichsminister der Finanzen, Berlin,....

(3), (6) Registered values at the custom: Statistisches Reichsamt, Monatliche Nachweise. Exports values are not shifted.

The financial side of the Munich agreement tried to provide payments of the Italian debt by the early months of 1936 through limited payments of German arrears for dividends, interests and rents and through Italian capital exports.

The transfer of private credits for capital income (interests, dividends and rents) from Germany to Italy was affected by the German Moratorium⁹⁴. These were not Reich (non Dawes and Young) loans on which Germany had agreed to pay full (limited) interest, but credits due to Italian citizens which had matured or would mature by 30.6.1936, for which payment had been made into the Konversionskasse. This payment was passed through the clearing (the miscellaneous transfers account) but we may imagine that it could not have amounted to much⁹⁵.

In Munich it was stated that the Italian government took up the service of the Dawes and Young loans and that Germany would repurchase some German shares held by Italians (BERULA shares); on the whole 2 or 3 million RM⁹⁶.

The amount of German securities held in Italy is very uncertain, possibly around 18,5 million RM⁹⁷. A very small part of the securities with Germany

94 Bdl. Introna 22, Roma 4.9.1937. From the account miscellaneous transfers are paid 32 for credits, 32 for dividends and 42 for rents. The possibility to use the capital income from German securities was increased on 11.4.1935, see Bdl. Rapporti con l'estero, r.29, f.1142-47, Utilizzo del reddito dei titoli in Germania.

95 AA. W. Finanzwesen 16-Italien, b.11, Accordo circa l'esecuzione della moratoria tedesca dei trasferimenti in base al protocollo riservato all'Accordo per regolare i pagamenti tra l'Italia e la Germania del 26 settembre 1934; interests and dividends were transferred up to a maximum of 42% (in some cases 32%); rents were transferred in full; comments in PRO. FO. f.371/20409, British Embassy, Berlin, 3.2.1936 and ibid., The Remittance of Private Credits from Germany to Italy. Enclosure to Rome Despatch 541, Rome, 5.5.1936, translated from Il Sole 2.5.1936.

96 AA. W. Finanzwesen 16-Italien, b.11, Il presidente della delegazione... Berlin, 20.12.1935.

97 Various estimates are reported in Bdl. Azzolini, 70, INCE, Riunione del consiglio dell'Istituto Nazionale dei Cambi con l'estero, Roma 30.4.1935; in Bdl. Azzolini, 69, Titoli germanici. Situazione al 31.8.1935, the total of 23 million in RM is detailed; few German securities in Italian hands were labelled in other currencies.

were sold at a discount of 30% to the Golddiskontbank (Effekten-Sperrmarkt) and for this part the previous registered marks procedure came into force and partially helped to finance German exports⁹⁸; securities that went through the clearing (through the "various transfers" account) were transferred, according to the agreement, at full value. The total capital transfers from Germany to Italy through the clearing agreement were rather limited (Table 4.1) and not very significant in relation to the total German debt⁹⁹.

At the end of sanctions the Italian and German delegation decided to adopt a more permanent basis by eliminating extra quota trade and consequently returning to commercial exchange based solely upon quotas and payable through the clearing. The agreement signed on 27th June 1936 had as its object the provision of a similar scheme together with arrangements for the liquidation of balances in favour of German exporters through additional deliveries of goods from Italy (8 million RM), capital transfers from Germany (6 million)¹⁰⁰ and additional German tourism (2 million)¹⁰¹.

By the end of June the situation had already overturned, Germany becoming the debtor and Italy the creditor so that the provisions of the agreement unbalanced the situation further and ended up in December with a big German debt mainly due to the invisibles. On the whole the selective import policy from Italy reduced the German active merchandise balance (Figure 4.2, March-June 1936) and determined a piling up of "payments in" in Germany for imports of goods (Table 4.2, Col. 3 and 6), payments for tourism and services (Table 4.2, Col. 4) while "payments in" for capitals and various items were temporarily reduced (Table 4.1); this determined a reversal of the standing.

Figure 4.2 derived from Table 4.2 conveys an overall idea of the working of the clearing and of the importance of the movement of the invisible items, over what was probably planned at the closing of the first agreement in 1934. They were crucial in balancing the account and allowing quick terms of payment from January 1935 to the third quarter of 1938. On average 1% change in the log of the exports value towards Italy is paralleled by 1.8% change in the log of the invisible items "paid in" in the Verrechnungskasse

98 They were mainly Italian holdings of Bewag and Berula for about 3-4 million RM, see Bdl. Azzolini 69, da Cauli, Munich, 16.12.1935.

Of course this procedure discriminated against Italians who had realized their securities earlier through the "various transfers" account, and received the full nominal value. See Bdl. Azzolini, 69, Munich, 25.1.1936.

99 Capital transfers include not only debt certificates but also shares.

100 Bdl. Azzolini 70, INCE, Comitato tecnico per i crediti e titoli, sessions 30.4.1935 and 22.6.1936. For securities it worked thus: all securities bound over were sold in Germany and RM were collected within the Golddiskontbank. 6 million were transferred through clearing at the official daily rate of exchange, others were sold at a discount. Italian creditors were paid at an exchange which was the average of the two. Germany also repurchased Dawes and Young at face value, see Bdl. Beneduce, r.98, f.1223.

101 8 million had been already carried in advance to tourism. The principle of additional deliveries was accepted with no more ado when the reciprocal balance exceeded 12 million RM. See DGFP. C.V. n. 398, The Embassy in Italy to the Foreign Ministry, Rome 23.6.1936.

(Table 4.3); of course the value of the latter is roughly half the value of the former. German delegates referred to these as residual items¹⁰² meaning that they were allowed into Italy to have Germans exporters paid, while German imports seem to follow a more constant growth trend, correlated with the German national product¹⁰³.

Table 4.3 Residual Items and German Exports. 1934.3.- 1938.3. Dependent Variable is log. Residual Items.

Constant	-4.612 (-1.80)	R ²	0.38
		DW	2.29
log German exports	1.812 (3.04)	F	9.25
		n =	17

t-statistics in parenthesis.

The fit of the regression worsens if 1939 is included. A clear break in the series is a sign that Germany has changed policy towards invisibles. The new policy of running a permanent deficit in the overall account will become apparent during the war.

5. The Clearing under the Rome-Berlin Axis

The Axis was signed in Rome on the 26th October 1936 and proclaimed on 1st November¹⁰⁴. Negotiations to secure autarchy in normal and abnormal conditions started in spring 1937 during a period of recovery of the reciprocal trade (previous Figure 4.2) and were held approximately every six months¹⁰⁵.

Discussions between Italian and German delegates were based on three main points.

First, political alliance made it more difficult to understand the foreign

102 For example in DGFP. C.IV, n.341, Unsigned memorandum, Berlin, 27.4.1937.

103 The stability of the β parameter of the regression has been tested computing the same functional form but varying the length of the period under scrutiny, trimester by trimester; it has appeared to be stable, without major structural breakdowns.

104 D. C. Watt, *The Rome Berlin Axis, 1936 - 1940. Myth and Reality*, Review of Politics, n. 4, 10.1960, p. 530, H. Laufenburger, *L'axe Berlin-Rome a-t-il une valeur économique ?* in *L'Europe Nouvelle*, n. xx, May 22, 1937, pp. 498-501 and *The Economist*, Economics on the Axis, 18.10.1941, pp.464-465. Autarchy, which is a word of exclusion and not of partnership, should be directed against third parties and not against one of the contracting partners; the two economies might coordinate the exchange of excess production so as to cover the deficits in specific branches. See DGFP. D.IV. n.423, The Secretary of State to the Embassy in Italy, Berlin, 4.1.1939, p.546.

105 DGFP. C.VI, n.341, Unsigned Memorandum, Berlin 27.11.1937.

exchange clearing balance between the contracting countries, i.e. the preferential transfer in free currency¹⁰⁶. Second, the provision of the raw materials of each of the contracting partners should have been coordinated¹⁰⁷. Third, a reciprocal availability of workers was agreed upon¹⁰⁸.

Discussions went on at two different levels. Mussolini's talks with Funk were rather optimistic¹⁰⁹ but were in fact based on little¹¹⁰.

The first problem - the peak in foreign exchange - was solved through the deterioration of the German-Italian balance of the clearing account, which went against Germany from the second half of 1936 to the end of 1939 (Table 4.2), and by the parallel desire of the Germans to buy torpedoes in Italy. These were valuable manufactured goods and Italy claimed it wanted payment in free exchange out of the clearing, recalling the German behaviour during sanctions. In the end they decided to limit the peak in 1938, to put 50% of the torpedoes in the clearing, to pay the rest in free exchange, and to subsequently abolish the

106 This was stated in the Secret Protocol between the German and Italian Governments, Munich, 14.5.1937 (DGFP. C.IV, n.368), whose application on this point was delayed. The Memorandum by the Foreign Ministry, Berlin 10.1.1939 (DGFP. D.IV, n.427) encloses a copy of the note from Ciano to Attolico, Berlin 9.1.1939 in which the abolition of the payment in free exchange is considered necessary to an egalitarian theory. Also in AA. Ha.Pol. Clodius, b.22.1, Aufzeichnung, Berlin 11.1.1939, 447877ff. At the beginning of 1939 Karl Clodius, Director of the Economic Policy Dept., wrote in a memorandum: "I told Herr Funk that it seemed very risky to me to renounce the foreign exchange clearing balance now, before a general plan had actually been discussed in detail and clarified. In this event we should lose the foreign exchange clearing balance without any equivalent in return, especially since the question of very close economic cooperation examined in detail by us already would probably encounter so many difficulties from our side as well that it would be extremely doubtful whether and when it could actually be realized. The prerequisite for this would be that Italy should renounce the application of autarchy at the expense of Germany, but that, on the other hand, Germany too in carrying out the Four-Year Plan, should be prepared to renounce the development of various branches of production in favour of Italy". DGFP. D.IV n.429, Memorandum by the Deputy Director of the Economic Policy Dept., Berlin 11.1.1939.

107 DGFP. C.VI, n.247, The Embassy in Italy to the Foreign Ministry, Rome, 5.3.1937 where quicksilver, aluminium, bauxite, nickel, sulphur as valuable Italian export items to Germany were mentioned. From the financial side the possibility of cooperation was certainly negligible. Both countries had their circulation backed with almost nothing and external funds were unavailable to neither.

108 In the Secret Protocol (DGFP. C.IV, n.368.) the two governments declared they were willing to place labour at each partner's disposal in abnormal times. The problem of labour is detailed in Ibid. DIV, n.446, (The Embassy in Italy to the Foreign Ministry, Rome, 3.2.1939) where the transfer of 37,000 agricultural workers and of 8,500 industrial workers was set out; the former were allowed to send back 400 RM. the latter 800 RM. for the whole period.

109 DGFP. C.VI, n. 546, Memorandum by the Head of the Economic Policy Division III, 1937.

110 Mussolini and Funk's points of view appear clear from DGFP. D.VII, n.301, The Head of the Italian Government to the Führer and Chancellor, 26.8.1939 and DGFP. D.VI, n.429, Memorandum by Clodius, Berlin 11.1.1939. Several documents show us that, while it was publicly assumed that a coordination between the two economies existed, it was, at the same time, secretly denied. See Unsigned Memorandum, DGFP. C.VI, n.341, Berlin 27.4.1937.

peak in 1940¹¹¹. The other two points are both aspects of the same problem: the coordination of the exchange of commodities.

The second problem could not be solved. Italy launched a "suggestion for cooperation in accordance with the Munich Coordination Committee" which consisted of sending bauxite and/or alumina that Italy was not able to transform to Germany, and receive back half of the aluminium produced¹¹². The proposal was soon aborted because of the German shortage of productive capacity and of labour¹¹³. The same list of goods "which each country desires to order from each other both in normal and abnormal times" that was established in 1937 was very far from fulfilment, both in 1938 and in 1939¹¹⁴.

The third point on reciprocal availability of workers was, after few months, transformed into a request for 200,000 Italian agricultural workers and opened the way to a continuous flow of Italian temporary workers to Germany both in industry and agriculture¹¹⁵.

The aims of the new negotiations were different from those of the preceding ones; now the main problem was that of the kind of goods exchanged in relation to the domestic policy of each partner country rather than a payment problem, as it had been in the early years of the clearing. The point was the reciprocal industrialization policies pursued by two industrial countries, looking for self-sufficiency in manufactured goods.

The Italian demand did not match the German supply and this resulted in a sharp decrease of the Italian quota in German trade by the end of 1938. In the last quarter of 1938 and in the first quarter of 1939, the Italian import quota from Germany over the import quota from Europe went down from 89 to 74 and reached the lowest point since 1936¹¹⁶. Clear evidence of the mismatch between demand and supply is the lengthening of the waiting period in clearing, i.e. of the time the Italian creditors had to wait to receive the sums passed into the clearing. It jumped from as little as a few days in 1937 to 90 days by the end of 1938. A three-month delay is not long in absolute terms, but is still a record in the history of this clearing and a clear sign of a rationing scheme.

111 The first time I found evidence of the torpedo dealing is in DGFP. D.VI, n. 414, Memorandum by Clodius, Berlin 13.12.1938. They were made in Silurificio Whitehead of Fiume and were demanded by the Oberkommando der Kriegsmarine, Marine-Waffenamt (AA. Ha.Po. Wiel, Italien, bd. 11, s.bd.12, Deutsch-italienischer geheimer Schriftwechsel, 13.2.1939, Anlage 5 and DGFP. D.VI, n.446, The Embassy in Italy to the Foreign Ministry, Rome, 3.2.1939).

The peak in free exchange was limited to 15,000,000 in 1938 (no longer a percentage of the import value) to half in 1939 and abolished in 1940: BAK. R2/13694 Geschäftsbericht.

112 DGFP. C.VI, n. 390, The Ambassador in Italy to the Foreign Ministry, Rome 26.5.1937.

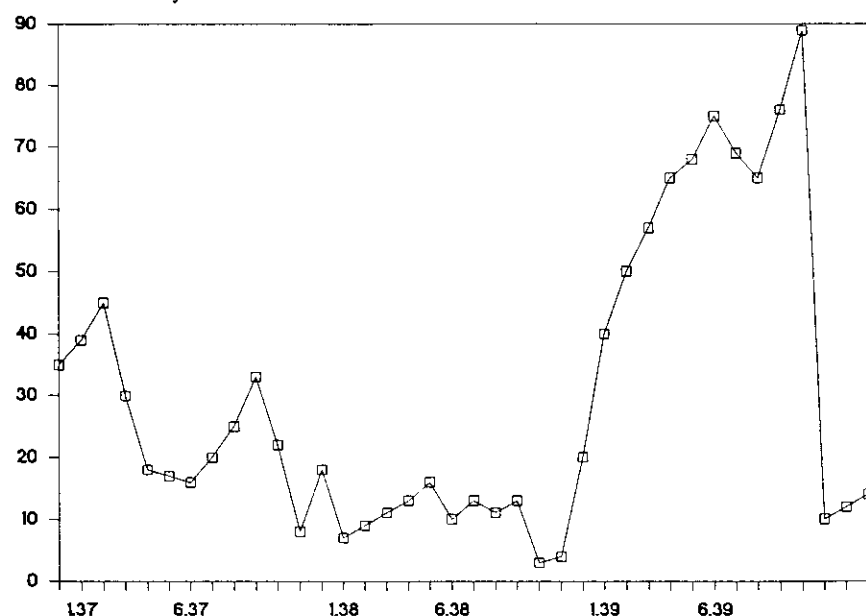
113 DGFP. C.VI, n.424, The Deputy Director of the Economic Policy Department to the Embassy in Italy, Berlin, 12.6.1937.

114 German exports of coal planned for 1938 were equal to 9 million ton.. Only 7,400,000 were sent. Italy provided all the bauxite and sulphur requested but no rice, cheese, pyrites. In 1939 the fulfilment of the agreement was worse than in 1938 on both sides.

115 DGFP. D.III, n.84, Second Secret Protocol, Rome, 18.12.1937.

116 The quota was: 1937 (I) 79, (II) 73, (III) 84, (IV) 79, 1938 (I) 89, (II) 89, (III) 76, (IV) 74, 1939 (I) 75, (II) 86. See Statistisches Reichsamt, Monatliche Nachweise.

Figure 5.1. Number of Days from the Date of the Payment made by the German Debtor and Withdrawal by the Italian Creditor.



Source: ISTAT, *Bollettino mensile di statistica*, various issues, BdI. Rapporti con l'estero, INCE: Situazione di cassa, r. 98.

Several reasons can explain the impasse.

- 1) German coal exports abruptly declined to well below the agreed amount (Figure 5.2). The failure was ascribed to transport problems but was really due to an increase in demand because of the Four-Year Program and to a shortage of mine labour in Germany, at least in 1938; transport became crucial with the war¹¹⁷.
- 2) Italians discriminated against final consumption imports, especially by the end of 1937 and in 1938. The Germans claimed that the Italians manipulated licences through the Corporations¹¹⁸ to discriminate among German exports, favouring machines and against other finished manufactures, on the whole allowing fewer imports than before. Table 5.1 provides a clear measure of the Italian buying of machines and apparatus well over the quotas established

117 With the occupation of Poland the problem of coal became merely a problem of transport and of availability of labour. See A. Raspin, *The Italian War Economy, 1940-1943*, Dissertation, London Univ., New York-London 1986, pp.74, 142, 158.

118 DGFP. D.IV, n.423, The State Secretary to the Embassy in Italy, Berlin, 4.1.1939.

Table 5.1. Machines and Apparatus. Italian-German Agreed Quota, Licences Issued by Italians and Actual Italian Imports. Sum of Quantities (100 kg).

	1937	1938	1939
Agreed quota	192,947		
Licences issued	375,306		
Italian imports: It. stat.	266,023	333,485	
Ger.stat.	296,137	332,359	378,123

Sources: ISTAT, *Commercio*, Statistisches Reichsamt, *Monatliche Nachweise*, AA. W. Handel 13.2-Italien, *Zuteilung von Einfuhrlicenzen für deutsche Waren*, Rom 12.3.1937, *ibid.*, *Lizenzverteilung für die Einfuhr von Maschinen im IV. Vierteljahr*, Rom, 25.11.1937.

The split between Italian imports of manufactured consumption goods and machines and apparatus (both from Germany) is evident from the long-run trends presented in Figure 5.2, where a selective Italian import policy is obvious. The substitution between coal and manufactures is also evident (Figure 5.2).

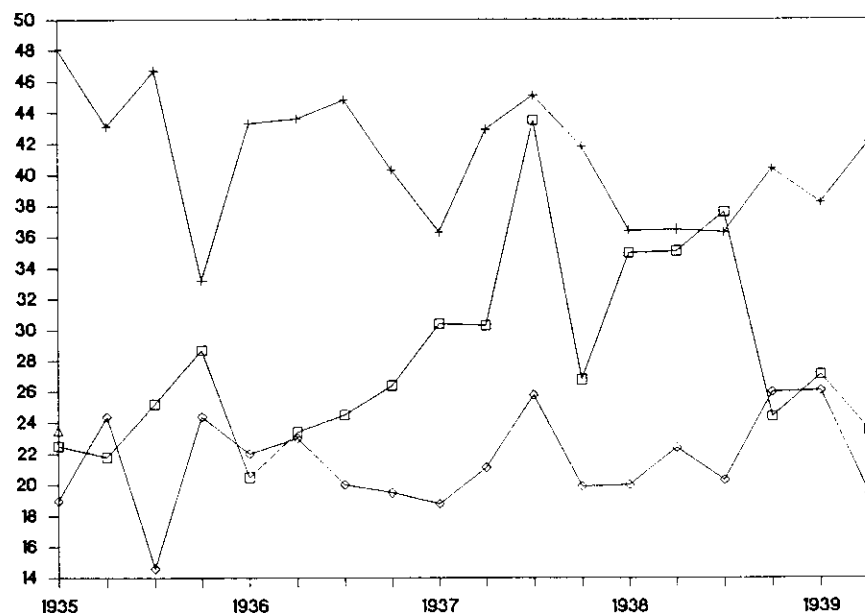
- 3) On the other hand, the Germans went on paying quite a lot in clearing and increasing their debt. Both because the merchandise balance in Germany's favour was now quite limited (for the two motives mentioned above) and because reducing the invisibles' outflow to keep the clearing balanced was not as easy and immediate a task as it had proved earlier in 1936 (Figure 4.2). The very nature of the invisibles had changed and this made them still more rigid: the service inflow into Italy was now largely made by emigrants, savings, which accrued to people who had moved 8-12 months before. They were also much less controllable; one might make tourists wait but not the families of emigrants without interrupting the flow of workers to Germany. In this way the payment for services competed with payments for Italian exports and generated a three-month delay for the Italian creditor.

Rather important amounts were also "paid in" in relation to the transfer of Italian-owned German securities in Italy and Italian-owned Austrian securities transferred to Germany following the Anschluss¹¹⁹. As a result by 1937, but particularly by the end of 1938, the clearing balance was heavily in favour of Italy¹²⁰.

119 AA. Ha. Pol. Wiel, 17/1, b1. Die Zahlungen zwischen Österreich und Italien.... The Germans were particularly interested in buying the Italian quotas in the two companies Stewag and Danubio, see DGFP. D.IV, n.399, Berlin 26.10.1938.

120 DGFP. D.VI, n.423, Memorandum by the Deputy Director of the Economic Policy Dpt., w.d.. Clodius asked for an Italian finance of the deficit; Italian Minister F. Guarneri opposed rather firmly, Guarneri, *Battaglie economiche*, v.2, p. 448.

Figure 5.2. German Quarterly Exports to Italy. Percentage Quotas over the Total Exported. Selected Goods.



+ Consumption Manufactured Articles □ Coal ◇ Machines and Apparatus
Source: Table 5.1.

6. Terms of Trade and Specialization

In order to discuss the argument that German terms of trade were exploitative we must tackle at least four separate questions:

1. The first problem when dealing with terms of trade built upon unit values is to take into account some caveats derived from recent studies. Irving Kravis and Richard Lipsey have recently compared import and export price indexes with unit value indexes and have ascertained that in many cases unit values do not behave like prices so they are not the appropriate base on which to build a theory of the terms of trade¹²¹.

¹²¹ I. Kravis and R. E. Lipsey, *Price Competitiveness in International Trade*, New York 1977. The unit value is obtained by dividing the sum of declared values by the sum of declared quantities for each class of goods; it is not a price basically because the same statistical class includes heterogeneous goods.

2. The second is to ascertain whether the terms of trade with the weaker countries really turned in Germany's favour.

At first, in 1939, Frederic Benham found declining terms of trade for the largest and most powerful economy, Germany, in trading with the Southern countries¹²². Germany paid increasing prices whenever prices of foods were universally declining in order to reinforce her buyer monopoly position in the organization of her own "Großraumwirtschaft"¹²³.

Larry Neal recently reopened the terms of trade question when he reaffirmed Germany's declining terms of trade to conclude that Germany accomplished a huge investment for at least five years, without reaping all possible advantages either in terms of prices or in terms of quantities¹²⁴. Neal himself, following a previous claim by Ellis, cast some doubts on the utility of such a policy to Germany as he noticed that in any case the growth of the political power of Germany "could scarcely fail to menace the economic status of South-Eastern Europe generally"¹²⁵.

Recently the view of Germany's increasing terms of trade has been challenged by Philippe Marguerat in the case of Rumania¹²⁶ and its importance for the exploitation issue has been examined by Milward¹²⁷. They both raise the question of the statistical significance of the terms of trade index in periods in which prices are very volatile.

3. The third question involves testing whether the evidence available from German-Italian trade data fits one of the previous models. Italy, whose dependence on Germany had drastically increased during the thirties, should provide a case in point for decreasing terms of trade with Germany; not in absolute value but relative to the payment-agreement countries and the countries whose dependence on Germany was less marked. In addition, to test the monopoly issue or the exploitation issue, it is necessary to prove that the declining terms of trade were due to higher prices for the same goods and were not the result of a change in the mix of goods traded.
4. The fourth question is to see whether the clearing was used by one country as an instrument of power or not; whether changes in prices and quantities

¹²² Royal Institute of International Affairs, *South Eastern Europe*, part II.

¹²³ Benham's results were criticized by Paul Einzig on the grounds that individuals in South Eastern Europe trading with the Germans reported quite different evidence and that RM paid by German importers were to be discounted as they were paid into blocked accounts. Benham replied defending his findings and noted that also marks paid for German exports should be devalued. See P. Einzig, *Why Defend Nazi Trade Methods?*, *The Banker*, 1941, pp. 108-113. F. Benham, *A Reply to Dr. Einzig*, *The Banker*, 1941, pp. 182-186.

¹²⁴ Neal, *The Economics and Finance*, p. 396.

¹²⁵ Ellis, *Exchange Control*, p. 264-5, in Neal, *The Economics and Finance*, p. 396.

¹²⁶ P. Marguerat, *Le Protectionnisme financier allemand et le bassin danubien à la veille de la seconde guerre mondiale: l'exemple de la Roumanie*, *Relations internationales*, n. 16, 1978, pp. 354 ff. The same author had previously successfully explained that, till 1939, the Reich did not try to develop trade with Rumania, see *Le III^e Reich et le pétrole roumain 1936-1940. Contribution à l'étude de la pénétration économique allemande dans les balkans à la veille et au début de la seconde guerre mondiale*, Genève 1977, pp. 72-78.

¹²⁷ Milward, *The Reichsmark Bloc*, pp. 377-410.

traded took place after the introduction of the clearing and whether they agreed with government plans or opposed them.

To tackle the second and third questions we have computed Italian - German bilateral prices and quantities indexes based on the German yearly figures, published in *Monatliche Nachweise*¹²⁸.

As one would expect, the unit value indexes appear rather variable for any change of the weights in the base year, a phenomenon which occurs in any troubled period. We can see no specific reason for choosing one base year instead of another and we have computed various indexes, shifting the base year from 1929 to 1939. The result has given us a confidence interval for the terms of trade which is bounded by an index based on the starting year and by the index with a 1938 base. The Fisher index lies in between (Figure 6.1.).

The terms of trade indexes show a clear trend in favour of Germany in the first two years; the index with 1938 weights later declines, which means terms in favour of Italy from 1931 to 1936, and subsequently rises with a favourable position for Germany from 1936 to 1939. Generally the terms of trade appear very volatile and the trend calculated for the whole period, from start to finish, looks rather flat; it rises very moderately indeed with slope coefficient 1.14. More stable and favourable to Germany are the terms of trade calculated with 1929 weights instead, which give less importance to the German export of coal - a crucial event from 1934 to 1939; this very reason makes the last index less acceptable.

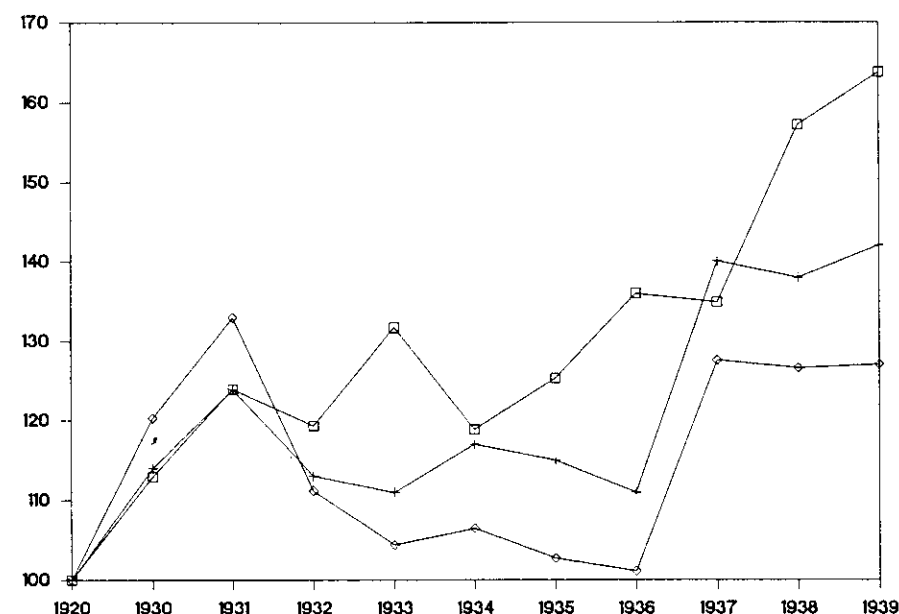
The idea of favourable terms of trade to Germany, within the Italian-German agreement, appears rather doubtful and is rather different from the positive trend of the total German terms of trade which we computed from the same source for the same period and which confirms the already-published German figures with minor differences.

To deal with the Kravis - Lipsey criticism, we also computed terms of trade using the unit values of some important goods imported and exported, rather neatly defined and classified without ambiguity in a definite statistical class. They are raw silk, hemp, lemons and oranges among Italian exports and coal in German exports; their unit value can be reasonably assumed to behave like a price¹²⁹. We computed them both from German and Italian statistics (Figure 6.2).

128 Statistisches Reichsamt, *Monatliche Nachweise*, various issues. Our indexes are fixed weight (Laspeyres) which show more clearly the different effect on the total value of changes in prices and changes in quantities. A moving weights index (Paasche or Fisher) would be more precise in representing the varying situation of the countries but would mix up the price and the quantity issues, which we want to keep separate.

129 Of course the Kravis - Lipsey critique arises mainly with manufactured German exports, a considerable aspect of German exports to Italy; it is much less crucial for the goods we refer to in this calculation. It seems nevertheless reasonable, according to various studies, to assume that the price of manufactures did not decline in relation to that of the raw materials, so that our result of terms of trade that are moderately favourable to Germany is supported, and Figures 6.1 and 6.2, are easily reconciled; see League of Nations, *World Production and Prices, 1937/38*, Geneva 1938.

Figure 6.1. Terms of Trade in Italian-German Trade. Various Indexes and Bases, 1929=100.



Laspeyres: □ 1929 Base, ◇ 1938 Base. Fisher: + 1929 Base

Terms of trade are defined as the ratio between unit prices of German exports and of German imports times 100.

Source: Statistisches Reichsamt, *Monatliche Nachweise*.

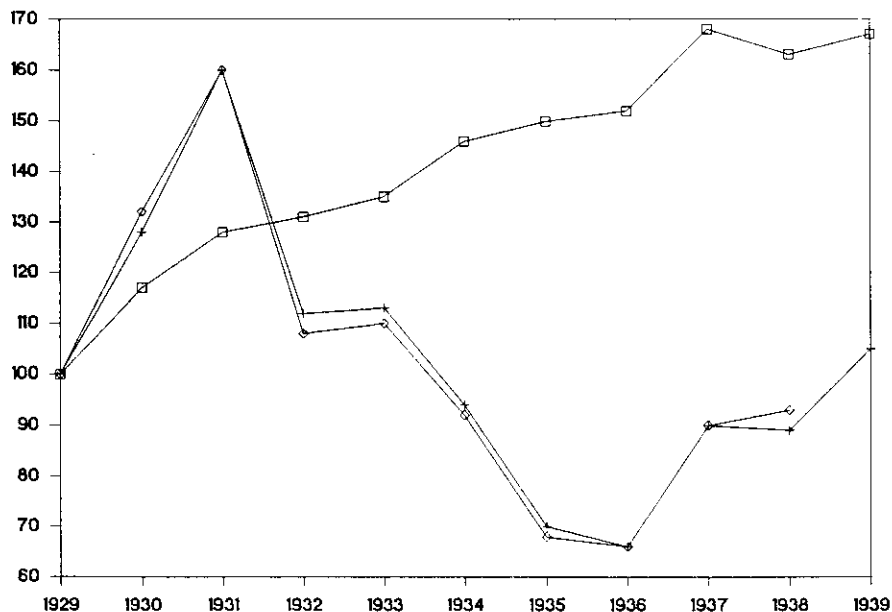
Our previous main points are confirmed. The first peak of the index is due to the price of coal, which remained higher than the price of the main Italian exports and dropped after 1931. In 1936 the index recovered mainly because of the increase of the unit value of coal¹³⁰. We know that coal was very competitively priced, as Great Britain was keen not to lose the Italian market, and citrus fruits and vegetables had, on the whole, good terms of trade in comparison with the total Italian exports¹³¹. The index is very variable and its average value is less favourable to Germany than that of the index calculated on the total amount of the goods traded, as it excludes the manufactured

130 The shape of the index is explained mainly by the unit values of exported German coal that increase in 1930, decrease till 1936 and increase afterwards. The increase in the terms of trade in 1932 is explained by the decrease in the unit values of the main vegetables and fruits exported by Italy. Their decline also explains the steep increase of the terms of trade in 1939; the increase in the 1937 value is due instead to the beginning of a rise in the unit value of coal.

131 G. Tattara, *External Trade In Italy, 1922-1938*, *Rivista di Storia Economica*, 1, 1988, pp. 102-120.

German exports, whose prices were rising over the 1929 level. Terms of trade of German manufactured exports to Italy against German imports from Italy are charted in the same figure as a reference.

Figure 6.2. Terms of Trade of German Manufactured Exports against German Imports and of Selected Goods in Italian-German Trade, 1938 Weights. 1929 = 100.



□ German Manufactures. German imports, computed on German statistics.

Selected Goods: ◇ Italian Statistics + German Statistics

German statistics: terms of trade = German exports/German imports.

Italian statistics: terms of trade = Italian imports/Italian exports.

The four Italian exports amount to more than 45% of the total Italian exports in 1929, more than 40% in 1938. German coal and coke exports amount to more than 29% in 1929, more than 54% in 1938.

Source: Figure 4.1.

In fact the clearing was not an instrument of power for Germany because: 1) it had a trade surplus with Italy that weakened its bargaining position; the overall equilibrium in the clearing account was the result of the creation of "invisible" balancing items that were not a direct policy object to Germany other than that of providing payment to the German exporters; 2) terms of trade are not a good tool of analysis and were not a direct aim of German policy. During the League's sanctions Germany's main interest was in having goods paid in free exchange. By the end of the period of our study Germany's concern was not in the terms of trade but in making other countries finance its domestic

expansion running a deficit in the external accounts. This policy was also applied towards Italy.

It is important to note that terms of trade were favourable to Germany when we would have least expected, i.e. in the early thirties and in the years subsequent to the League's sanctions, when its political and economic power was low. Terms were favourable to Italy when German power was high, i.e. within the clearing and during sanctions.

The term of trade argument misses the most interesting part of the story; far more important is the change in specialization of the two economic systems over time and this is the real point worth investigating.

Both countries gradually changed their reciprocal trade structure: after 1933, in particular, imports and exports increasingly depended on a few important goods and this of course meant some kind of dependence, whether it was desired or not.

By the end of the twenties, Italian exports to Germany were rather specialized in a few agricultural goods and silk. As time went by Italy kept roughly the same structure while German exports to Italy specialized in coal and few other goods, reversing the position held by the two countries at the beginning of the period (Table 6.1).

Finished products exported to Italy stayed at the same level as before (as a percentage of finished products exported to all countries) but they increased from 52.0% in 1929 to 64.8% in 1933 and decreased to 39.5% of total German exports to Italy in 1938. The predominance of raw products in German exports over the 1929 basis is rather clear from the specialization indexes between the two countries (Table 6.1). In 1929 seven goods accounted for 50.0% of total German exports to Italy; coal, leather, cotton products, furs, dyes, paints and glass products. From 1929 to 1932 specialization decreased, but from 1934 to 1938 German exports to Italy began to concentrate on very few goods, especially coal, which amounted to 33.0% of the total exports value in 1938.

On the whole, the structure of German exports to Italy till 1933 did not change much; the position of Germany as an exporter of a variety of manufactured products was reinforced. Export prices to Italy were very similar to general German overall export prices and export prices to the UK. From 1934 German exports concentrated on raw materials, especially coal, due to the movement towards import substitution of the Italian economy.

The export price of coal on average did not increase and did not provide an improvement in the German terms of trade. The export of semi-finished goods had more favourable terms; the most important were steel wires and plates, structural steel and, of course, machines and apparatus. Certainly the importance of the rapid growth of some manufactured articles (14% yearly for the quota of machines and apparatus) must have had little effect in comparison with the 39% annual rate of growth in the quota of coal, a good that weighed 33% of the total German exports to Italy. This results in a rising specialization index after 1933 (Table 6.1).

By the end of the twenties, Italian exports to Germany were more specia-

lized than German exports to Italy. Three goods, vegetables, citrus fruits and raw silk, made up 50% of the total Italian exports to Germany. As time went by, Italian exports to Germany remained at the same level, maintaining the previous level for agricultural products and replacing silk with other textiles (jute, hemp, linen).

Animals, food and beverages from Italy represented 4.4% of the total German imports from all countries in 1929, 8.2% in 1933 and declined to 6.5% in 1938. Among Italian exports to Germany, animals, food and beverages represented 44.9% at the beginning of the period, increased to 61.1% in 1933 and stayed at the same level in 1938. Their importance and their stability is also clear from the specialization index of German imports from Italy (Table 6.1).

Raw products declined from 41.6% to 22.0% in 1933 and stayed rather stable until 1938, mainly due to the overall decline in textiles (raw silk) according to the secular trend in Italian exports¹³². Hemp and a big surge in bauxite exports from the Italian mines of Istria counterbalanced the negative trend in traditional raw material exports in limited amounts.

The result of the changes in terms of prices turned out not to be very unfavourable to Italy because silk was the good that suffered most in terms of prices in the thirties, but its importance declined in favour of other fibres (Table 6.1).

Italy made some effort to export certain raw materials (bauxite) which were not really abundant, and certain sophisticated manufactures, like vehicles, aeroplanes and their parts, the number of which had increased significantly by the end of the period. By the end of the thirties, Italy had an active balance towards Germany for this latter class.

On the whole the change in commodity composition of Germany's imports from Italy was not significant; specialization was rather stable. On the other hand specialization in the goods exported from Germany decreased till 1932 with an increase in the variety of the goods sold abroad and a rising quota of finished good exports. Subsequently the specialization index grew till 1938; the surge was mainly due to the growing importance of coal, steel and of machines and apparatus.

The German pattern of specialization from 1934 onwards was not without problems as the country specialized in goods that were in short supply on the domestic market. The supply of steel was a big problem for Germany itself; there was a shortage of mine labour to extract coal, and machines and other investment goods were greatly needed domestically.

132 This conclusion also applies to German exports, as we have just seen, and seems to agree with Milward, who writes: "Where a staple export of the underdeveloped economy becomes more concentrated on the German market than it had been before 1928 that shift often took place before 1933". See: *The Reichsmark Bloc*, pp.393.

Table 6.1. Specialization of German Trade with Italy.

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
Specialization of German exports towards Italy. Index number 1929 = 100.											
	100.0	88.9	89.6	69.5	70.1	85.3	111.2	112.0	129.8	131.0	117.9
Specialization of German imports from Italy. Index number 1929 = 100.											
	100.0	98.8	94.8	100.5	101.8	101.3	105.5	100.1	107.3	106.6	104.5
German exports: specialization ratios for selected goods.											
Coal	4.2	3.4	3.4	2.0	2.5	3.3	3.5	3.3	3.2	3.3	3.2
Wool	1.4	1.1	1.0	1.0	1.1	0.5	0.4	0.3	0.7	0.6	0.7
Struct. steel	0.6	0.6	0.5	0.5	0.7	0.5	0.6	0.8	0.6	0.8	0.6
Steel plat.	0.6	0.9	0.5	0.5	0.7	0.5	0.4	0.3	0.5	0.5	0.9
Dyes	1.0	1.1	1.2	1.1	1.0	0.8	0.6	0.6	0.6	0.7	0.8
Machines, app.	1.2	1.1	1.0	0.6	0.9	1.1	2.7	1.6	1.4	1.4	1.3
German imports: specialization ratios for selected goods.											
Vegetables	5.8	6.6	6.0	5.8	6.8	6.6	5.4	7.4	10.3	9.3	6.8
Fruits	5.8	6.4	5.1	6.8	5.9	4.9	5.2	5.9	7.4	5.8	4.6
Citrus Fr.	7.7	6.2	5.3	5.1	5.9	5.4	4.9	5.6	8.3	5.8	5.4
Raw silk	20.5	19.0	16.8	17.0	15.7	15.8	15.4	11.7	14.2	15.6	8.8
Hemp, Jute	3.3	3.5	3.3	3.2	3.4	3.0	4.0	3.4	5.0	5.8	4.3

The ratio is defined as the ratio between (trade i It-Ger)/(trade It-Ger total) and (trade i Ger tot.)/(trade Ger tot) where i is a commodity. It is equal to 1 in the case of "average" specialization for the country considered, greater than 1 for positive specialization and lower than 1 for negative specialization.

Source: Statistisches Reichsamt, *Monatliche Nachweise*.

7. Conclusions

The clearing agreement between Germany and Italy was an apparently successful story; it was accurately managed without long payment delays and it supported a rapid increase in the reciprocal flow of trade. In Hirschman's terms it had a positive supply effect for both countries¹³³.

It was able to develop in this way because negotiators were forced to make continuous adjustments over the first, official negotiation of the clearing, explicitly keeping account of the invisible items of the balance of payments and of capital movements. From this point of view they followed a strong claim by A. Hirschman on the importance of the invisible items in balancing the

133 This is underlined by Milward, *The Reichsmark Bloc*, p. 392 ff. and was, at the time, pointed out by K. Ritter, *Germany's Experience with Clearing Agreements*, *Foreign Affairs*, 14, 1935-36, p. 472.

international economic relations among countries, although Hirschman thought that these items were not adequately considered in the clearings concluded by Germany in the thirties¹³⁴. The balances of the Deutsche Verrechnungskasse we have presented show the opposite, both in the case of the Italian-German trade and of the general German trade with the other clearing countries.

Documents and evidence from trade data show that the flow of "payments in" in Germany due to the invisible items, mainly tourism, was managed as an adjusting or a residual item of the Italian-German clearing, necessary in order to have German exporters paid before a huge deficit in the merchandise account (where these sums were regularly transferred) occurred. This function ceased when invisibles reached very high levels, as they included the savings of the Italian workers who had emigrated in large numbers to Germany by the end of the period.

The general awareness of the necessary coordination between financial and trade policies had always been at the back of Italian and German negotiators' minds. At the beginning, the recovery of arrears was made in Germany through an explicit sale policy, allowing or forcing the creditor to buy large quantities of coal over a short period; this was not the case with the Anglo-Italian clearing, where the problem of the recovery of the old debts weighted the clearing for long time¹³⁵.

By the end of the period the rôle of financing towards merchandise trade reversed. Germany tried to run a deficit with many clearing countries so as to force the partners to bear the cost of the transfer of resources. This happened with the Balkans, with whom Germany was in surplus in the merchandise account but was in deficit overall, and it was also true with Italy. The Italian situation was possibly not so bad in 1937-1939, for Italy contrived to have itself financed by other countries, England, Portugal, Rumania and Switzerland. The Italian debt in clearing to the latter two balanced, on average, the German debt in 1939¹³⁶; the latter grew enormously in the following years, with a very high balance blocked in Berlin that Italy was anxious, but unable, to reduce.

The terms of trade argument and the specialization pattern followed by the external exchanges of the two economies gives uncertain answers about the relative strength of the countries and the alleged exploitation of Italy by the more powerful Germany. We are able to confirm the result, common to various

134 Hirschman's study (*National Power*) does not stress this point, which is made clear by the same author in his *Memoria sul controllo dei cambi in Italia*, p. 229; nevertheless the compensation through invisibles seems to receive scarce attention as a general phenomenon.

135 G. Tattara, *The Anglo-Italian Clearing*, *Rivista di Storia Economica*, 2, 1985. International Issue, pp. 115-154.

136 Switzerland and Rumania occupied a very weak position in this process. They had surpluses in clearing both with Italy and with Germany. Switzerland traded considerably with countries other than Italy and Germany. Rumania was more dependent; 25% of Rumanian exports went to Germany, 6% to Italy. Italy had a surplus in clearing with Germany and a deficit with the other two: Germany had a deficit with all three.

other studies, of an uncertain pattern of the terms of trade, with reference to the Italian-German commodity exchange.

The index of the German capacity to import¹³⁷ from Italy remained, on average, 10 points above the 1929 level during the whole period and did not show a very definite trend. With its yearly exports, Germany was generally able to obtain 10% more of the quantities of the same imports from Italy it had in 1929; this does not amount to much when one takes into account the fact that Italian exports were more than 55% agricultural goods, which were not easily marketable commodities. The capacity to import index grew from 1929 to 1932, later declined and then recovered from 1935 to 1937; its trend reflects that of the terms of trade which, on the whole, turned moderately in Germany's favour during the period. Their improvement was in any case modest and short-lived; it would disappear in the forties. Moreover Germany's terms of trade were more favourable when German bargaining power was less: in the early years and at the end of the period after the sanctions against Italy.

This does not mean Germany neglected her foreign trade policy. In the case of Italy the policy of tolerance and incentive towards a huge flow of tourism can be considered as the counterpart of a policy of economic penetration towards the Italian market using quantities (the loose allotment to pay German tourism) more than prices (terms of trade) as the adjusting variable¹³⁸. Naturally paying German exports through an increased flow of tourists amounts to Germany paying through a form of concealed imports of Italian commodities and runs almost in the opposite direction of a policy to buy more and pay less, as is implied in the argument of exploitation through the terms of trade.

To reinforce her stake in the Italian market, Germany had to adapt to Italian needs more than Italy to those of Germany, at least till 1939 when Italy started exporting huge flows of labour. Italy's pursuit of the "autarchia nazionale" highlighted the fact that Italy had already become an industrial economy and could not be flooded with useless, low-quality, consumption goods and forced to supply valuable staples through a perpetual unbalance of the accounts¹³⁹. German exports specialized in raw materials (coal, steel etc.) and abandoned high value-added commodities, except machines. Italy, on the other hand, went on exporting stable quantities of agricultural goods.

The kind of specialization Germany reached at the end of the thirties was not what the Germans openly wanted: they were keener to export finished consumption goods, arms, but not investment goods or raw materials (coal or steel). Paradoxically during the four years of the working of the clearing,

137 Defined as the ratio between the index of the value of German exports and the index number of German imports from Italy, the value exported made equal to 1.

138 Of course, behind such a large flow of tourists we could investigate the advantage of providing the German upper class with a kind of consumption it was deprived of by the overvalued exchange rate.

139 Milward, following Neal and Marguérat, casts some doubts on this well-known thesis, also with regard to the less developed countries of Southern Europe. See: Milward, *The Reichsmark Bloc*, p. 385 ff.

specialization was more against German wishes than from 1929 to 1933. At the same time coal was not a very powerful item in Germany's hands, insofar as Great Britain was very willing to replace Germany as a coal supplier, at least till 1938-39, when she adopted a more uncertain attitude towards Italy. At the same time, Italy's specialization in food exports was not what Fascism openly wanted: its agricultural policy was directed towards wheat self-sufficiency and did not organize vegetables and citrus fruits in any way as a valuable export item. During the clearing-period it is interesting to note the importance assumed by exports of hemp, bauxite and vehicles, which were products needed by the Italian army but were nevertheless exported to Germany. The value of these three classes did not exceed 5-7% of the total value of Italian exports.

By 1938, the position of Germany was considerably stronger than before. It supplied 60% of the total Italian coal imports and also supplied Italy with machinery and apparatus, amounting in 1938 to 67% of the total Italian imports of these commodities, wood (48%) iron and steel (38%) and chemical wood-pulp (22%). Of these German supplies only coal could conveniently be supplied by the Allies. Germany also took large percentages of most Italian exports: 37% of all citrus fruits and 58% of other fruits, 75% of hemp, 44% of silk, 43% of nuts; the chief Allied imports from Italy were foodstuffs, artificial fibres and wool yarns, hemp and sulphur. Italy thus relied on Germany for some 27 % of its imports, against 14 % from the Allies, while Germany took 19 % of Italian exports, compared with the 14 % taken by the Allies¹⁴⁰. By the end of the period the influence effect of foreign trade was undoubtedly clear.

Did the policy of German penetration into Italy amount to a sacrifice of present gains for greater future gains? This question posed by Ellis and answered in the negative concerning South Eastern Europe, is, in my opinion to be answered in the affirmative with reference to Italy. We all know that Mussolini was by no means a faithful ally and Italy was not in "the natural sphere of influence" of Germany¹⁴¹. German penetration was not expected and had to be pursued at a cost. During negotiations, the basic ambiguity of Mussolini's external policy made the position of the strongest negotiator, Germany, become the weakest, and we are left with the impression that Germany adopted an uncertain attitude in relation to its Italian trade, given the advantages of its initial position, and that the objectives of the Neuer Plan gradually broke down.

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140 W. N. Medlicott, *The Economic Blockade*, vol. 1, London 1952, p.283.

141 Although the answer will be reversed, if, as some students suggest, it might have proved more useful to Germany not to have Italy on her side but on the opposite. The strategic economic importance of Italy was even less than her political importance. On the low strategic importance of South-East Europe see Milward, *The Reichsmark Bloc*, pp. 390-391.